EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Providing for the old and disabled
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World News

French left gains ground in municipal elections

The first round of French municipal elections saw the left consolidate its national electoral position with the right losing ground and the extreme-right National Front suffering a major setback.

Early computer projections showed that the left-wing parties were expected to gain between 46 per cent and 47.7 per cent of the national vote in the polls compared with 45.4 per cent in 1983. Page 22

Botha 'will stay'

President PW Botha of South Africa ignored party pressure for his resignation and said he intended to remain in office for another year, despite suffering a severe stroke seven weeks ago.

Angola peace moves

Renewed efforts to end the 13-year civil war in Angola were expected to get under way following disclosures of a serious rift in the Unita rebel movement led by Jonas Savimbi. Page 22

Sudan resignations

The State Council, Sudan's collective presidency, accepted the resignation of the Government of Prime Minister Sadek al-Mahdi, but asked him to stay on and form a new Cabinet. Page 4

Miners told to work

Striking ethnic Albanian miners in Yugoslavia's troubled Kosovo province were ordered to return to work or face penalties. Page 3

Sri Lankan sweep

Sri Lankan security forces detained 1,200 suspected left-wing Sinhalese rebels in a sweep of southern areas, military sources said.

Poles end strike

Strikers at the Marchlewski textile works in Lodz, Poland, decided to suspend their stoppage after the Government threatened to close the factory. Page 3

Floods hit Malawi

About 10,000 people were homeless after floods caused by weeks of heavy rain swept away villages in southern Malawi. The floods were believed to be the worst in 30 years.

Beirut airport shuts

Lebanon's only international airport shut down after the most severe civil war fighting around Beirut in two years.

Chinese in control

Chinese military appeared to be in control of Lhasa, Tibetan capital, after a week-long uprising by protesters. But observers believed the authorities planned harsh penalties for those involved. Page 4

Presidential pardon

A convicted Red Army Faction terrorist serving a life sentence was pardoned by President Richard von Weizsäcker of West Germany and would be released next year, a presidential spokesman said.

Official 'bugging'

Sten Andersson, Swedish Foreign Minister, said he had been subjected to illegal electronic eavesdropping. He is the first high-ranking politician to corroborate a government statement that several top officials had been bugged in the hunt for the killer of former Prime Minister Olaf Palme.

Moscow demo

At least 1,000 people attended an illegal protest against communist rule in Moscow. The Democratic Union, the opposition group which organised the demonstration, said police detained about 40 people.

Iranian boycott call

Ali Akbar Mohtashemi, Iran's Interior Minister, called for an economic boycott of Britain following the break in diplomatic relations over the Salman Rushdie affair.

Anti-inflation protest

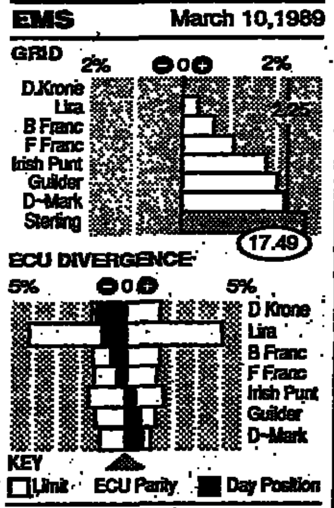
Brazilian unions are preparing for a national strike on Tuesday and Wednesday in the first major conflict over the Government's anti-inflation plan.

Business Summary

UK securities watchdog set for row over US proposals

THE SECURITIES and Investments Board, the UK's chief investor protection watchdog, faced strong protests from City of London institutions over proposals to give US authorities wide powers over British-based futures brokers and dealers. Page 22

EUROPEAN Monetary System: The French franc finished the week on a higher level, having consolidated gains made on the abolition of exchange controls on French companies. However, there are fears that the potential increase in money flows could leave the franc more exposed to speculative moves. For the time being, the franc remains firm, helped by a decision to leave key lending rates unchanged in West Germany. This has helped to subdue the D-Mark and postpone any possible build-up of pressure on the weaker member currencies.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

RTZ Corporation's deal to buy British Petroleum's worldwide mineral assets for $4.3bn is being threatened by a dispute looming over the Lihir Island gold project in Papua New Guinea. Page 27

DAIMLER-BENZ has been informed by the West German Federal Cartel Office that it has certain objections to the motor group's acquisition of a majority shareholding in Messerschmitt-Boelkow-Blöhm, aerospace and defence concern. Page 27

TOSHIBA, Japanese electronics company, has chosen Regensburg in West Germany as the site for a plant to make its highly successful lap-top computers. This will be the first Japanese computer factory in Europe.

INVESTCORP, Bahrain-registered investment bank which last year bought a 47.8 per cent equity stake in Gucci, Italian luxury goods manufacturer, has increased its holding to 50 per cent. Page 27

CHASE INVESTMENT BANK and Gulf International bank are the arrangers of a $500m, eight-year loan to the Sultanate of Oman, enabling it to return to the Euromarkets after a hiatus of nearly three years. Page 25

SANYO Electric, Japanese consumer electronics group, saw a sharp recovery last year as it lifted consolidated pre-tax profits in the year ended November, 1988 to Y24.3bn ($187.7m) from Y608m a year earlier. Page 27

DRESDNER BANK, leading West German bank, will be one of the designated brokers for the Euromark futures contract to be introduced on the London International Financial Futures Exchange on April 20. Page 27

VIETNAM is to pay the International Monetary Fund a token amount of slightly more than $5m, against a debt of $130m which has been outstanding since the 1970s, to pave the way for fresh international aid. Page 6

HONG Kong Futures Exchange will begin operating a new clearing house subsidiary. The Clearing Corporation will have a share capital of HK$1m ($128,000). Page 6

KYMMENE, Finland's leading forest products group, plans to raise FM740m ($171m) through a one-for-10 rights issue and a targeted share issue to employees. Page 27

EC report assumes monetary union will follow 1992

By Peter Norman, Economics Correspondent, in London

A DRAFT report on the move towards European integration assumes that monetary union in the European Community must follow from the 1992 programme for a barrier-free community.

It is likely the report will overshadow tomorrow's discussions of EC central bank governors about possible steps towards economic and monetary union in the EC.

Britain and some other members of the European Community could find themselves in conflict with Mr Jacques Delors, president of the European Commission, over the report which contradicts their long-held belief that the creation of a customs union in the EC by the end of 1992 should not be linked to monetary union.

The idea, incorporated in the first section of the three-part draft report, will be considered by a meeting in Basle of the 17-strong Delors Committee of central bank governors and outside experts which was charged last summer by EC leaders with studying concrete steps towards economic and monetary union.

Britain and Luxembourg have both submitted written statements to the committee criticising the draft.

It could cause problems, too, for West Germany's Bundesbank which has argued that monetary union should come at the end of a very long process of economic convergence in the community.

European monetary officials said the draft appeared to reflect the views of Mr Delors, who chairs the central bankers' committee, and Mr Tommaso Padoa-Schioppa, a director-general of the Bank of Italy and a former senior official in the European Commission. Mr Padoa-Schioppa is now one of the two secretaries of the Delors group.

It is a surprising document because Mr Delors is known to be seeking a consensus among committee members and envisages a very gradual movement towards economic and monetary union.

Mr Delors' general line has been that monetary union should be a logical economic consequence from the 1992 programme but does not follow legally from it.

The Single European Act, which came into force in 1987, requires a treaty amendment for any significant change in the EC's existing monetary arrangements.

Some European officials closely involved with the Delors committee's work argue, however, that the draft section could represent an attempt by Mr Delors, or one of his assistants, to have on record a document signed by central bank governors that endorses the 1992 programme in full.

The controversial section of the draft has not yet been discussed by the full committee so it is impossible to know how far it is supported by EC member states.

A first discussion is expected tomorrow when the Delors group meets at the Bank for International Settlements in Basle for what is due to be its penultimate meeting.

The committee has scheduled a special day-and-a-half session in April to finalise its report.

The officials said the first section of the draft report contained a lengthy history of recent moves towards greater integration in the EC such as the Single European Act. It failed to note that the 1992 programme faced many problems, including widespread disagreement among member states about plans to harmonise taxes.

If the draft report is left

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Challenges ahead, Page 21

US debt-relief plan welcomed in creditor and debtor nations

By Stephen Fidler, Euromarkets Correspondent, in London

US proposals to relieve the debt of problem debtor countries, unveiled on Friday, brought a broadly positive response from both creditors and debtors at the weekend.

But they were criticised by President Carlos Andrés Pérez of Venezuela for not going far enough.

The proposals, outlined by Mr Nicholas Brady, US Treasury Secretary, called for greater efforts to reduce debt burdens of developing countries through negotiations between creditors and debtors. He said the US would back the International Monetary Fund and World Bank using their resources to support voluntary debt reduction.

However, President Pérez, whose country has suffered riots following the introduction of an IMF-support economic programme, was critical of the suggestions. "It does not reconcile the pressing situation of our nations," he said.

It was "a very timid step which does not meet the basic aspirations of our people."

He added: "The plan presupposes that Latin American countries can still wait months and years for a basic solution to the debt problem. None of our countries can wait."

The Mexican Finance Ministry said the plan was "particularly positive for its change of emphasis that grants priority to the reduction of debt and debt service rather than to additional indebtedness, as had occurred in the past."

Mr Pedro Aspe, Finance Minister, would begin talks in Washington today with Mr Brady. However, his ministry said it would take "some months of intense work."

Mr Sergio Amaral, one of Brazil's chief debt negotiators, said in Rio de Janeiro that the Brady proposals constituted "a positive development and a useful evolution in the right direction".

Commercial bankers also responded largely positively, although some pointed out that the full implications, if any, of the proposals on the banks' balance sheet had yet to be spelled out.

Mr Michel Camdessus, managing director of the IMF, said: "The main element and broad thrust of this initiative deserve a positive response from the international community." Commercial banks needed to show greater flexibility and disburse money more quickly.

In Japan, whose support is critical to the success of the Brady initiative, Mr Tatsuo Murayama, Finance Minister, said: "I strongly support the US proposals, including voluntary market-based debt and debt service reduction and repatriation of flight capital. We will work closely with the US and other countries toward successful implementation of the strategy."

US initiative, Page 2; Editorial comment, Page 20; Anthony Harris, Page 23

Japan wins backing for greater IMF role

By Peter Riddell, US Editor, in Washington

JAPAN is set to displace Britain as the second-largest shareholder in the International Monetary Fund (IMF).

The way for this was opened by a change of US policy in discussions with Japan, which led to Friday's announcement of fresh proposals to reduce the borrowings of heavily-indebted countries.

At present, Japan has the fifth-largest shareholding and voting power in the IMF. It has been pressing for an increased stake to match its greater relative financial resources, but in the past this has been blocked by the US.

The Bush Administration has now accepted, however, that in return for providing substantial new sums of money to help the most heavily-indebted nations – many of which are becoming increasingly politically unstable – Japan must be given a greater say in international economic decision-making.

This represents a fundamental shift in US foreign policy towards sharing of power and responsibilities.

Mr Nicholas Brady, the US Treasury Secretary, in his speech on Friday, relaxed previous opposition to an increase in IMF quotas, or subscriptions.

He said the new debt strategy could help lay the basis for a quota increase and hoped a consensus could be reached by the end of the year.

The review of quotas will involve changes in relative voting strengths. IMF officials say there will now be lengthy discussions about the criteria to be used in determining the balance.

It has previously been recognised that if quotas were increased, then Japan should take second place, with the US still first and West Germany third. It is likely that Britain and France would be equal at fourth place.

At the end of the IMF's last financial year on April 30, 1988, the US had 19.1 per cent of the weighted votes, against 6.6 per cent for Britain, 5.8 per cent for West Germany, 4.8 per cent for France and 4.5 per cent for Japan.

The likely changes underline the shifts in world economic strength over the past 30 years, notably affecting Britain. Japan, which already has the second-largest shareholding in the World Bank, accepts that the US should retain its leadership role.

In Washington, Mr Brady's proposals have gained the support of key congressional leaders, although there remain disagreements over important details.

The Federal Reserve, the US central bank, has expressed doubts over possible changes in regulations affecting the accounting treatment of debt by banks. But Mr William Seidman, head of the Federal Deposit Insurance Corporation, which deals with banks, argued that US tax laws should be modified to encourage the write-down of debts.

Hesse vote shows swing to polarised politics

By Haig Simonian in Frankfurt

FIRST results in the municipal elections in the West German state of Hesse, which includes the city of Frankfurt, yesterday confirmed the trend towards a sharp polarisation in German politics shown in last month's West Berlin elections, with large rises by parties on the left and especially the extreme right.

The trend was particularly marked in Frankfurt where computer forecasts showed the ruling Christian Democratic Union (CDU) party losing over 12 per cent of the vote. Its share fell to 37.3 per cent from 49.6 per cent at the last municipal elections in 1985.

The main beneficiary was the extreme right-wing NPD, which campaigned on a broadly anti-immigrant platform. It captured some 6.6 per cent of the votes and will now have seven seats in the city parliament, where it was not represented before.

Results in the state as a whole confirmed a similar trend, although the shift to the extreme right was generally less marked.

According to forecasts, the CDU's share of the Hesse vote dropped almost 8 per cent to 33.3 per cent, while the Social Democratic Party (SPD) increased its share by 0.3 per cent to 44 per cent.

The main beneficiaries were smaller groups, with the environmental Green party raising its share by 2.1 per cent to 9.2 per cent, while the combined share of "other parties," notably the NPD, rose to 8.1 per cent from 2.8 per cent in 1985.

Continued on Page 22

Powerful environment authority planned

By John Hunt in The Hague

PROPOSALS for a new, more powerful international organisation to protect the world environment were agreed at the weekend by 24 countries led by France, Norway and the Netherlands.

The organisation, to be called Globe, would have power to initiate and enforce international agreements to control pollution. Its main aim would be to head off global warming, the "greenhouse effect".

The meeting, at The Hague, was attended by 17 heads of government from industrialised and Third World countries. They envisaged that the new organisation might incorporate a strengthened version of Unep, the United Nations Environment Programme, which supervises some international agreements and carries out research but lacks enforcement power. Alternatively it could be entirely separate.

The intention is that the International Court of Justice at The Hague would hear complaints against countries alleged to be in breach of pollution agreements.

The final document, the Hague Declaration, was watered down from the original draft proposed by the organisers, Mr Michel Rocard, Mrs Gro Harlem Brundtland, and Mr Ruud Lubbers, respectively the French, Norwegian and Dutch premiers.

The main item dropped was a proposal for sanctions against goods produced under conditions that damaged the

Continued on Page 22
Green revolution, Page 3

World aircraft sales forecast to rise sharply in next 15 years

By Michael Donne, Aerospace Correspondent, in London

WORLD DEMAND for new jet airliners is rising so rapidly that Boeing, the biggest builder of jets, has revised sharply upwards its sales forecasts for the next 15 years.

World airlines will buy 8,417 new jet aircraft of all types from all manufacturers between now and the year 2005, the US aerospace group says in the latest edition of its annual Current Market Outlook. This time last year it was forecasting a figure of 6,908.

By value, purchases will total $516bn, compared with last year's forecast of $414bn.

Boeing says a prolonged period of air travel growth is likely through the 1990s, driven by a continued growth in discretionary income, much of which will go on air travel, especially for leisure purposes.

At the same time, Mr Jack Howard, Boeing Commercial Airplanes' director of market research, believes the real cost of air travel will continue to come down. He also predicts relatively stable aviation fuel prices and no economic recession for the foreseeable future.

Mr Howard makes his predictions over the 15 years to 2005 because "we need to allow for 10 years of deliveries of any new airplane programmes that might come along, and the next new programme appears to be no sooner than 1994."

Although he does not identify those programmes, they include the European Airbus A-330 twin-engined short-to-medium range jet, and its partner, the four-engined A-340 long-range jet airliner, and the medium-to-long range McDonnell Douglas MD-11 tri-jet.

At the same time, it is possible that smaller, short-range "new technology" airliners using prop-fan engines may be entering service by the early-to-mid 1990s.

The Boeing study suggests that about 70 per cent of the $516bn outlay on new jets will be required to meet traffic growth, with the rest covering replacement of ageing aircraft being phased out of service.

A bigger demand for all-cargo aircraft to meet rapidly rising air cargo traffic could also be a significant element.

The report expects an increase in the number of aircraft likely to be bought in the bigger 170- to 240-seat category rather than in the smaller sizes. This reflects airlines' increasing desire for bigger aircraft for short- to medium-range work because of the growing congestion, and consequent difficulties in acquiring take-off slots, at many major world airports.

On the replacement of ageing aircraft, Mr Howard says that "replacement is going to happen," but, despite recent incidents which have increased public concern about the safety of older aircraft, perhaps less rapidly than many other analysts believe likely.

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THE MONDAY INTERVIEW

Carl Hahn, chairman of Volkswagen of West Germany, the world's fourth-largest car producer, believes European industry has to prove it can compete by opening its markets to the rest of the world. Page 40

US INITIATIVE ON DEBT

Banks ponder the effect on balance sheets

Stephen Fidler on questions posed by the Brady proposals for a new approach to the debt crisis

GIVEN the constraints within which it understood itself to be working, the US Treasury's proposals for a new approach to the Third World debt crisis go as far in some respects as anybody was expecting.

The Treasury had deemed that forcing banks to forgive debts was unconstitutional and it had also appeared unwilling to risk a political battle. As a result, the proposals outlined by Mr Nicholas Brady, the US Treasury Secretary, on Friday were in a voluntary framework, requiring neither the approval of Congress nor the appropriation of taxpayers' money.

As expected, the proposals recognised the need to reduce the debt and debt servicing of highly-indebted countries through voluntary means and also that a new thrust was needed to encourage the process.

While US support for the use of resources from the World Bank and International Monetary Fund to improve incentives to debt reduction was clearly within the scope of possible US action, it had not been obvious that it would be forthcoming.

The US also signalled a significant shift by opening the door to an increase in the financial resources of the IMF and by recognising that Japan's financial clout should at last be brought to bear on the problem.

But some important questions remain. Bankers had been holding their breath for Mr Brady's speech. But, although Mr Brady said much about debt reduction, he did not say anything about its logical corollary: the writing-off of Third World loans by banks. The banks still do not know how the proposals will affect their balance sheets.

This appears to be because of unresolved differences over the matter between the US Treasury and the Federal Reserve (which, along with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, is responsible for assessing the level of write-offs appropriate on banks' sovereign loans).

The Fed apparently opposes forcing banks to recognise more losses on Third World lending, while the Treasury is said to want a more assertive policy. If the Fed's view prevails, there will be many who doubt the efficacy of the rest of Mr Brady's proposals. It is also clear that unless something is worked out which insists on the seniority of new over old loans – and there are potential legal problems here – writing off old loans is a strong deterrent to making new ones. Mr Brady said he wanted the two elements to go hand-in-hand.

He called for banks to negotiate a general waiver, perhaps lasting three years, of clauses of the loan agreements with debtors which insist that all creditors be treated equally. The existence of such clauses has in the past been regarded as an obstacle to debt reduction, which implies a differential treatment of creditors, but it is clearly open to question whether all banks will embrace this idea in a voluntary setting.

There will be doubt about the proposals within the sister Bretton Woods institutions, whose role in the process will be crucial.

The World Bank has on a few occasions guaranteed new loans by commercial banks, but there are many in the institution who do not like the idea. This is partly because a World Bank guarantee of a $100m commercial bank loan to a country uses as much Bank capital as a direct $100m loan. (The capital is not all paid in, so the difference between a loan and a guarantee is that only the former requires the Bank to raise funds in the capital markets).

They also fear that systematic use of guarantees will leave the World Bank heavily exposed to such big debtors as Brazil, whose past economic performance has been erratic, and unable to carry out its proper function in other countries. Furthermore, under these circumstances, default would put at risk the World Bank's prime credit rating.

The role envisaged for the Bank would probably be to act as guarantor of interest payments, perhaps for three years, on bonds that commercial banks would get by cashing in their old bank loans. This could be quite efficient. Assuming banks are willing to swap loans for bonds at 30 cents on the dollar and interest rates of around 10 per cent, a bonds-for-loans swap would achieve a debt reduction of $700m on each $1bn of loans. The World Bank's guarantee of three years' interest payments would cost $90m in capital and the cash-flow benefit to the debtor (assuming it would otherwise have paid its debts) is $70m a year.

This compares well with the benefits of a conventional structural adjustment loan of $90m and also – since it reduces the number of competing claims – enhances the quality of the Bank's existing loans to that debtor country.

The IMF's potential role in this process could be to help countries to replenish reserves following a direct debt buy-back in the secondary market for their loans. Again assuming that the country would otherwise pay, debt buy-backs provide an attractive return for a debtor country's reserves. Using the above assumptions, the annual return on reserves employed is 33 per cent.

Packages can be structured to provide relief on either the principal or the interest of these replacement bonds, or on both. Given that the debtors' problems may be said to centre on large flows of resources out of these countries, such bonds might concentrate on the alleviation of interest payments.

However, the potential for so-called "moral hazard" – the incentives to broadly unsociable behaviour – is there both from the point of view of the creditors and the debtors.

There is nothing to stop commercial banks avoiding debt reduction altogether. In fact the incentives may be to stay out of the process, let other banks take the losses and enjoy the benefits of improved debt servicing that follow from debt reduction. From a debtor government's point of view, the best game plan might be to become a debt delinquent – thereby ensuring that large discounts build up on its bank loans – and then "see the light" and join the IMF fold.

Under Mr Brady's proposals, the benefits of debt reduction would go only to those agreeing to strong economic conditions laid down by the multilateral institutions. Governments, and particularly the US, have been criticised in the past for leaning on the Fund and Bank to make loans to countries which have not complied with these conditions. The application of conditionality in a world of debt reduction is a new game, and it is recognised that, unless it is handled carefully, all kinds of perverse incentives may be set in train.

In embracing debt reduction, even on a voluntary basis, the US administration has implicitly recognised for the first time that many Third World loans made by banks will never be repaid. By doing this, the Treasury has set sail into uncharted waters.

Washington shifts attitude to Japan's international role

By Peter Riddell, US Editor, in Washington

IT IS appropriate that the Japanese Government's welcome for the new US debt proposals emerged two hours before they were set out by Mr Nicholas Brady, US Treasury Secretary.

The Japanese backing, and promise of increased financial support, is not only crucial to the success of the Brady plan but represents a significant shift in US attitudes towards Japan's international role.

Last September, at the meeting of the International Monetary Fund in Berlin, Mr Brady, then newly-appointed as Treasury Secretary in the outgoing Reagan administration, was brushing aside Japanese proposals, known as the Miyazawa plan (after the then finance minister).

These were broadly similar in intention to what was announced on Friday, though rejected by Mr Brady six months ago as undermining the basic principles of the 1985 Baker plan (named after the then US Treasury Secretary and current Secretary of State).

Underlying this response was reluctance by the US to give Japan a greater role in international policy-making. The US blocked the Japanese desire to have a larger stake and voting power at the IMF, where it ranks fifth – behind the US, Britain, West Germany and France.

The US was reluctant to surrender its previously unchallenged leadership in dealing with world problems of debt, trade and currencies.

The shift has occurred for two reasons.

First, as President George Bush stressed two weeks ago, he wants to cement a close relationship with Japan and other countries of the Pacific rim.

Second, there has been the increased urgency of political problems in Latin America, especially after the riots in Venezuela and due to the pressures on the Salinas government in Mexico.

For the Bush administration, the debt issue is now about US national security – but the US does not have the financial resources to respond, so it has had to involve the country which has. That's Japan.

As the price for Japanese money, the US has had to concede a greater say in decision-making. This represents the most dramatic illustration so far of the new politics of interdependence for the US which Mr Baker has been stressing.

Japan has publicly backed Mr Brady's proposals. Also, according to Mr Tatsuo Murayama, Finance Minister, it is pledged "to increase support and parallel lending by the Export-Import Bank of Japan, in close co-operation with the IMF". Japanese officials see the former Miyazawa plan as being incorporated to Mr Brady's ideas.

The US has met Japan's desire for a bigger say in the IMF. Mr Brady has relaxed previous US opposition to an increase in IMF quotas, or subscriptions. He hopes consensus can be reached by year-end. A review of quotas will involve a reassessment of relative voting shares and a bigger role for Japan.

Tokyo still accepts that the US will have the biggest say. Mr Koji Yamazaki, its executive director at the IMF, said Japan welcomed US leadership on the debt strategy.

Within the Bush administration, while the broad thrust of the approach is agreed and backed by the president, there has not been time to discuss and approve the details.

There have been disagreements between the Treasury, the State Department and the Federal Reserve. The Fed has been more cautious, particularly about changes in accounting regulations which might encourage banks to become more involved in debt reduction schemes.

Mr Mike Bradfield was the Fed's influential general counsel till the end of last month. He has said publicly that the Treasury's plan takes major risks by "placing almost all of its eggs in the debt reduction basket", thus risking insufficient new money for growth.

Many questions still have to be resolved, yet the announcement on Friday marked a significant recognition by the US that it has to share power on international economic issues.

Latin American reactions mixed

By Joe Mann in Caracas

WASHINGTON'S new proposal for dealing with Third World debt has provoked mixed, and contradictory, reactions from Latin American leaders. It is not yet clear exactly how the American plan is supposed to work.

In Venezuela, ministers representing seven Latin American nations ended a two-day meeting on Saturday with a commitment to pursuing their own debt plan.

The Group of Eight Latin American nations snubbed the US initiative by calling for regional support for another debt plan drawn up previously by seven Latin American finance ministers in Rio de Janeiro.

Venezuelan President Carlos Andrés Pérez, one of the region's most militant supporters of a radical solution to the debt problem, said the proposal fell short of meeting Latin America's needs.

Addressing a ministerial conference of the Group in Ciudad Guayana, Mr Pérez welcomed the US proposal as a "significant advance", but added: "It does not reconcile the pressing situation of our nations.

"The plan presupposes that Latin American countries can wait years for a basic solution to the debt problem. None of our countries can wait."

His words contrasted with responses from the largest Latin debtors, Mexico and Brazil. In Mexico, President Carlos Salinas de Gortari said the US plan was "a first and positive response to Mexico's position". Brazil's Finance Minister, Mr Mailson da Nobrega, called it "a positive step and an important conceptual advance."

Latin American governments still await a more detailed version of the plan, announced by Mr Nicolas Brady, US Treasury Secretary, last Friday. He did not indicate precisely how the plan would work or where additional funds would come from to finance new debt-related activities at the IMF and the World Bank.

One Latin American official said privately that regional leaders are not happy with voluntary participation by international banks. But the leaders are eager to discuss the plan with the Americans.

The Group of Eight approved a debt plan called The Declaration of Rio de Janeiro, which urges reducing regional debt by using a multilateral institution to issue and guarantee bonds to be used to purchase a major share of debt. Funds would come from the industrialised countries, with some financial support from debtor nations.

Attending the Group of Eight meeting were foreign ministers of Argentina, Colombia, Mexico, Peru, Uruguay and Venezuela, as well as Brazil's General Under-Secretary for Bilateral Affairs. Panama, originally a member, did not participate.

The next Group foreign ministers' conference is scheduled for April 15 in Granada, Spain, with foreign ministers of the European Community.

Pérez: "We cannot wait"

World Bank strives to mend fences with Brazil

By Ivo Dawnay in Rio de Janeiro

THE World Bank has presented Brazil with a $1bn face-saving formula aimed at defusing a long-running row over an energy sector loan.

The proposal, tabled at meetings with the Planning Ministry in Brasilia last week, offers an alternative scheme, doubling the value of the original $500m loan but re-directing it to specific projects.

The new package thus avoids any need for an economic evaluation of Brazil's nuclear energy programme – now the main obstacle holding up the disbursement of cash after two years of talks.

The new loans fall in three parts. Brazil would receive $300m for use in energy-related environmental projects and for energy conservation. In addition, there would be two tranches of $350m each for use in electricity transmission, distribution and rural electrification schemes.

A big advantage of the proposal is that it would allow relatively quick disbursement with all the funds expected to be released within 18 months. In addition, the funds for environmental conservation will bolster the somewhat tarnished ecological images of both Brazil and the bank.

Above all, the proposals aim to heal a dispute that has caused the World Bank considerable embarrassment. The World Bank's relations with Brazil, its largest single borrower, have deteriorated in recent weeks. Brasilia has pointed out that net flows of capital have been in the bank's favour for the past two years and are likely to be so again this year.

OVERSEAS NEWS

Toshiba computer plant for Regensburg

Toshiba, the Japanese electronics company, has chosen Regensburg in West Germany as the site for a plant to make its successful laptop computers. This will be the first Japanese computer factory in Europe, writes Hugo Dixon.

Toshiba plans to start making 5,000 computers a month in April 1990. It envisages this output increasing to 10,000 in the factory's second year and doubling again by 1993. The company sold 100,000 laptops in Europe last year, and the market is growing rapidly.

Soviet N-ship allowed to dock

Authorities in the Soviet Far Eastern port of Vladivostok have relented to allow the country's first nuclear-powered cargo ship to dock and unload at the end of its maiden voyage, in spite of strong anti-nuclear protests from dockers in the region, writes Quentin Peel in Moscow.

The 61,000-tonne Sevmorput had been forced to anchor offshore, until an inspection team from the state environmental protection committee had tested its radiation level.

The action against the ship is new evidence of local authorities' refusal to accept the orders of national ministries in Moscow, particularly over environmental issues.

Rideout to lead Newfoundland

Mr Tom Rideout, former Fisheries Minister, is to succeed Mr Brian Peckford as Newfoundland's provincial premier and leader of its ruling Progressive Conservative Party, writes David Owen in Toronto.

A pragmatic politician, Mr Rideout, 40, was first elected to the legislature as a Liberal in 1975. He switched parties five years later, entering the cabinet in 1984.

A former teacher and one of 13 children, he is widely expected to call an election this year. He inherits a government entering its fifth and final year in office.

Rapid approval of Cheney likely for defence job

By Peter Riddell, US Editor, in Washington

MR DICK Cheney is likely to win rapid approval as US Defence Secretary, in place of the rejected Mr John Tower, following promises by leaders of the Democratic-controlled Senate to speed the confirmation.

The appointment of Mr Cheney, a former White House Chief of Staff and now Republican Party whip in the House of Representatives, has been widely welcomed by Congressional leaders.

Senator Sam Nunn, the Democratic Party chairman of the Senate Armed Services Committee, who led the fight against Mr Tower, has backed Mr Cheney and said his committee will hold hearings this week. A confirmation vote by the full Senate will probably come in early April after its two-week Easter recess.

Politicians and commentators have been assessing the impact of the Tower affair. An opinion poll conducted last Thursday and Friday for Newsweek magazine indicates that 62 per cent of those polled approved of President George Bush's performance in office – up from 55 per cent a month ago. However, those interviewed were evenly split about his handling of the Tower affair.

Mr Robert Dole, the Republican minority Leader in the Senate, gave Mr Bush, his former rival for the presidential nomination, a "B-plus to an A" rating for his performance. He also noted that, while people had feared President Reagan ("you knew that this guy had a hard core and, if you didn't try to support him, you were going to be in trouble") they did not have the same view of Mr Bush.

Mr Dole also said that Mr Bush's *domestic agenda* – covering education, the environment and child care – would come to Congress as legislative proposals after the recess.

Kosovo faces fresh tension if pit strike continues

By Judy Dempsey in Zagreb

YUGOSLAVIA'S troubled southern province of Kosovo, under tight security for the past two weeks after a wave of strikes by ethnic Albanians, faces renewed tension if miners refuse to return to work today.

Despite the recent police crackdown and dozens of arrests of ethnic Albanians, miners from the Stari Trg and Trepica zinc mines said at the weekend they would stay away from work until their political demands had been met. Some of the mines had been closed after the strikes.

Miners' demands include the reinstatement of their province's party leadership, forced out of office last November by Mr Slobodan Milosevic, Serbia's powerful party leader.

They also want the incumbent pro-Serbian party leadership replaced, with an end to Serbia's attempts at exercising greater control over the running of the provinces through changes in the Serbian constitution.

Some demands were temporarily met when Mr Rahman Morina, the pro-Milosevic party leader in Kosovo, and other senior party officials resigned in response to the strikes by the ethnic Albanians.

Their resignations were rejected by Mr Milosevic, and thousands of Serb nationalists who held mass demonstrations in Belgrade and other cities. The state presidency confirmed the planned Serbian constitutional changes would go ahead.

Officials in the northern republic of Croatia suggest that ethnic Albanians, by staying away from work, may hope to influence the outcome of a meeting of the Kosovo assembly due to discuss the proposed constitutional changes on March 24.

Green revolution in international relations

Laura Raun and **Bruce Clark** on the broader effects of global environmental issues

ONLY a few months ago, it would have sounded extravagant to say that global environmental problems could bring a revolution in international relations.

Mr Mikhail Gorbachev gave hints in that direction in his speech to the UN last December, yet those remarks were hardly noticed amid the sensation over the unilateral arms cuts he announced.

In the West as well, at the highest levels of several Governments, the perception has been growing – at least since the 40-nation Toronto conference last June, which yielded a new consensus on the inevitability of the greenhouse effect – that the threat to the planet's ecology had the potential to transform North-South, and indeed East-West, relations.

This heightened concern has gone relatively unnoticed by the public.

Only in the last week, with international conferences in London and Paris, have some public hints been given about possible implications for the international system of the expected rise in the world's temperature by up to 5 degrees centigrade in the next 50 years.

The London conference, grouping representatives of 124 countries, focused on the specific issue of CFC gases, found guilty of the double crime of destroying the ozone layer (which could cause an epidemic of skin cancer) and of contributing, to the tune of 20-25 per cent, to the greenhouse effect.

CFCs are in a sense the easy part: replacing them seems unlikely to cost their makers and industrial users much more than $10bn. The other culprits in global warming – the 50 per cent caused by carbon dioxide, and the remainder caused by such gases as methane and nitrous oxide – will be more expensive to deal with.

With current technology, the burning of fossil fuels is *inseparably linked* to carbon emissions; and intensive farming (stock-breeding in the North, rice-farming in the South) leads inevitably to emissions of methane.

The US Environmental Protection Agency, not known for exaggeration, estimates that countering the greenhouse effect will cost Washington "hundreds of billions of dollars"; but really, such numbers are plucked out of our not-so-thin air.

If Western officials sound concerned when they discuss the implications for their own hemisphere – how can citizens be induced to save energy without the discipline of a soaring oil price? – there is a note of desperation when they turn to relations with the developing world.

Economic decisions by sovereign Southern nations will assume vital importance for the North; indeed every country's energy choices – including those of the Eastern bloc, already in ecological crisis and hopelessly energy-inefficient – will affect every other.

The Third World's share of greenhouse emissions is tiny but has the potential to increase fast; "if we tell them

Ruud Lubbers

to stop farming, we tell them to starve" (a German minister); "the hungry also pollute, and they cannot stop polluting without our help" (a top French official); and deforestation – particularly when forest is burned – appears to be the second most important factor, after fossil fuel consumptions, in rising concentrations of carbon dioxide.

Last weekend's 24-nation summit in the Hague was the first public attempt to think through the effects on North-South relations of greenhouse warming; and its proposal for a new world environmental authority, with teeth, sets the agenda for an international debate on the international politics of the environment that seems certain to grow louder and louder.

The "Hague declaration" calls for new world environmental order. It envisages a new authority within the UN named "Globe", with an unprecedented range of powers to establish and enforce environmental standards. Legal compliance would be ensured by the International Court of Justice in the Hague, which would arbitrate in disputes arising under international environmental law.

In coming years UN treaties would draw the outlines of environmental regulation and of an "Atmospheric Fund", which would help Third World countries combat pollution by channelling money and technology to them.

The establishment of Globe, as envisaged by The Hague participants, would inevitably involve some sacrifice of national sovereignty. Unless it is adeptly presented, it would also be a blow to the UN Environmental Programme, the agency which has so far made the running in global ecological diplomacy.

It remains to be seen whether the distinction between creating new institutions, and building on existing ones, is more than semantic.

UN members are due to meet in Stockholm in 1992 to review UNEP's charter; that would be an obvious opportunity for its transformation into something like Globe.

Anticipating objections, President François Mitterrand of France stressed that no new bureaucracy or red tape was needed: "There already is international intervention within the current framework."

"The Hague declaration launches an institutional process that will evolve in spite of opposition because of environmental imperatives," claimed Mr Charles Secrett of Friends of the Earth. "All they can do is delay the inevitable because decision-making must be on a global level, with a whole new set of political and financial consequences."

The "new environmental order" as sketched out in The Hague would include an executive body, Globe itself, a judicial branch – the World Court – and a "legislative" one, which is the UN assembly.

Globe, as conceived in the Hague, would be able to make decisions by majority vote; it would have powers to enforce standards, although the phrase "economic sanctions" was dropped in the final version of the concluding declaration.

"The World Court could nevertheless award financial compensation under its role as arbiter of international environmental law. Globe could seek damages from polluting countries, which in turn could sue one another. The court is already competent to settle environmental disputes but no country has sought its judgment in that area and environmental treaties provide no specific appeal to The Hague.

"The court is not only to penalise countries which don't fulfil their obligations but to protect countries which think the authority has not been fair in treating them," explained Mr Ruud Lubbers

Berlin blow to East-West links

MR HELMUT Haussmann, West German Economics Minister, has cancelled a meeting scheduled for this week with Mr Erich Honecker, the East German leader, in protest at recent shootings at the Berlin wall, writes David Goodhart in Bonn.

The deterioration in relations has also cast a shadow over the Leipzig spring trade fair, the biggest annual showcase for East-West trade, which opened yesterday in the East German city. Mr Haussmann has also cancelled his visit to the fair.

Polish textile strike suspended

By Christopher Bobinski in Warsaw

THE POLISH authorities took a big step forward in their attempt to contain the labour unrest for wage increases when strikers at the Marchlewski textile works in Lodz decided to suspend their stoppage on Saturday.

Their decision came after the Government had threatened to close the factory.

The 12-day strike mainly by women workers at the plant, which has played a key role in previous labour struggles, ended as Solidarity leaders in Warsaw were reviewing agreements made so far at the round-table talks with the authorities which started on February 6.

The stoppage, which was one of the most serious this year, embarrassed Solidarity, which has been calling for calm while the talks continued. The Government maintained a hard line, telling management that the plant, which is more than 100 years old, would be closed if too generous a settlement put the factory in the red.

In the end, the 4,200 workers won just over half the wage increase of 30,000 zloty (£31) a month they had demanded. In January their average wage was 64,000 zloty per month.

Meanwhile, both the Solidarity leaders and a "civic committee" of prominent intellectual advisers to Mr Lech Walesa, the Solidarity leader, gave general approval, at a weekend meeting, to the result of the round-table negotiations. These focus on legalisation of Solidarityin exchange for the opposition agreeing to enter parliament, in a minority role, after elections in June.

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Gandhi wins praise in ending party rift

By David Housego in Delhi

MR RAJIV GANDHI, Indian Prime Minister, demonstrated a new tactical flair at the weekend in resolving a serious rift in his ruling Congress Party, in a way that should lift its electoral chances in the key northern state of Bihar.

The rift was caused by an unprecedented revolt of Bihar Congress Party MPs, who had demanded the dismissal of the Chief Minister of the province, Mr Bhagwat Jha Azad, a nominee of the prime minister.

The dispute, which has lasted several weeks, came on top of the Congress defeat in the Tamil Nadu state election and coincided with further challenges to Mr Gandhi's authority in northern states.

The crisis was resolved over the weekend with Mr Azad formally stepping down, and the leadership of the state government and Congress Party being taken over by two old-guard politicians capable of rallying the party in advance of the general election this year.

The moves nominally meant a defeat for Mr Gandhi but he was being applauded in the party at the weekend for the astuteness of the manoeuvre. One senior Congress leader, Mr Kamlapati Tripathi, who of late has had little good to say of the prime minister, praised him for having selected the "two best persons" in Bihar and "real Congress men".

Of the two men chosen, the more important is Dr Jagannath Mishra, who takes over as head of the Bihar Congress party. He was twice chief minister of Bihar under Mrs Indira Gandhi, the previous prime minister, and is recognised as the most experienced hand in running the clique which controls the politics and economic life of the state.

The new Chief Minister, Mr Satyendra Narayan Sinha, 70, is also seen as an elder statesman of the province with friends in many camps. He led the opposition Janata Party in the state in the late 1970s, before returning to the Congress Party in 1983.

The two men stand in sharp contrast to the reformism that Mr Gandhi sought to bring to his administration when he first came to power. But they are judged a powerful combination in rallying Congress support and dividing the opposition at election time.

The smoothness of the resolution to the crisis bears the mark of Mr R K Dhawan, a former confidant of Mrs Gandhi, whom the present prime minister recently brought back to his private office to help him out of political difficulties.

Wheel deals embarrass Mugabe

Tony Hawkins *on the scandal forcing Zimbabwean ministers out*

PRESIDENT Robert Mugabe of Zimbabwe will return to Harare this week to face a political crisis after the resignation of two ministers and speculation that three more are likely to quit soon.

Mr Enos Nkala, Defence Minister and one of the country's most senior politicians, announced his resignation on Friday after admitting that he had given false evidence to the Sandura Commission of Inquiry into the Willowvale Motor Industries affair – dubbed "Willowgate" by the Zimbabwe media. His resignation closely followed that of Mr Fred Shava, Labour Minister, who also admitted to having committed perjury before the Judicial Commission.

Mr Mugabe appointed the commission after media reports that government ministers and top officials had used their positions to obtain new vehicles from the state-owned Willowvale car assembly plant, then resold them at huge profits in breach of regulations which forbid resale of vehicles at prices above certain levels.

Three other ministers are reported to be considering resignation. One is Mr Dzingai Mutumbuka, the Higher Education Minister, who told the Commission that he was "unaware" of the price control regulations despite his nine years as a cabinet minister.

Enos Nkala: admitted giving false evidence

Robert Mugabe: to receive Mrs Thatcher in two weeks

Mr Maurice Nyagumbo, one of the president's closest advisers, and Mr Callistus Ndlovu, Minister for the car industry, are also said to be considering resignation.

The Sandura Commission will not report until the end of the month, but the affair is a big embarrassment to Mr Mugabe, only two weeks before he is to receive Mrs Margaret Thatcher, UK Prime Minister, on her first visit to Zimbabwe, not least because so many ministers were involved in one way or another.

The government's supporters are seeking to snatch victory from the scandal, depicting the whole affair as a triumph for democracy and the rule of law.

However, this claim does not stand up to close examination, given the large number of witnesses who claimed they were too frightened to speak in open court, and the need for hearings *in camera*.

The fact that the editor of the state-owned newspaper, which broke the story, was promoted upstairs to a non-writing position, having been threatened with arrest by Mr Nkala and sharply criticised by ministers deploring "investigative journalism", also casts doubt on the validity of the view of the affair as a triumph of democracy.

It is also premature to make such claims until it is known whether those who broke the law are to be brought before the courts.

The obvious delight in the public galleries at the discomfort of ministers suggests that the Government has lost considerable support. Another great concern is the potential impact of the scandal on the Government's laboriously constructed economic reform programme.

One view is that Zimbabwe is in for a spell of socialist puritanism that will undermine those seeking a more market-oriented solution to its economic difficulties. Indeed, there is no shortage of critics blaming capitalism and market forces for the corruption unearthed by the commission.

A more optimistic view is that Mr Mugabe now has a chance to reshuffle his cabinet to ensure that the reformers are given senior posts.

Even so, the most likely outcome may be a diversion of activity from legislation and policy review towards party politicking and fence-mending, especially given the proximity of the party congress in August and of constituency elections in June.

Tibetans fear witch-hunt after Lhasa riots

By Peter Ellingsen in Peking

THE CHINESE military appeared to be in full control of the Tibetan capital Lhasa yesterday after a week-long uprising by Tibetan protesters. A few arrests were still being made during mopping-up, but western observers now believe the authorities plan to track down all the Tibetans involved in the trouble and impose harsh penalties.

Police video-taped the biggest demonstration last week, when several thousand Tibetans took part. From the tape, and with an estimated 60,000 Chinese troops now in Lhasa, they will try to identify those involved.

Estimates of the number killed last week go as high as 600. About 1,000 people have been arrested so far. All foreigners have been expelled from the area.

Wan Li, chairman of China's parliament, the National People's Congress, was quoted by state radio at the weekend as saying martial law had been "entirely necessary".

One Tibetan resident was reported as saying that monasteries on the outskirts of Lhasa remained officially closed.

Peking appears determined to stick to its frequently stated policy that Tibetan matters are internal. The Foreign Ministry summoned representatives of all European Community member states and, apparently upset at the issue of Tibetan human rights being raised in the European Parliament last week, told them it considered such action to be interference in China's internal affairs.

Peking also delivered a stern warning that tough measures would be taken to prevent chaos, not only in Tibet but also against political dissidents elsewhere who have been demanding greater freedom.

Al-Mahdi dissolves Sudan government

By Julian Ozanne in Khartoum

MR SADIQ al-Mahdi, Sudan's Prime Minister, has caved in to rising pressure from the country's trade unions and armed forces, and dissolved his government.

This paves the way for the formation of the broad-based government he promised a week ago.

The resignation of the cabinet, tendered late on Saturday, was accepted by the President of the State Council, Mr Ahmed al-Mirghani, on Radio Omdurman yesterday.

This latest move in the country's three-week political crisis, precipitated by an army ultimatum on February 20, is being seen as an attempt to reduce the growing pressure on the premier. The armed forces and trade unions, frustrated by his delaying tactics, had been pushing him to act for 72 hours with a series of statements and ultimatums.

Mr al-Mahdi told reporters the running of the Government would be handed over to senior civil servants until a new government was formed.

It remains unclear whether the fundamentalist National Islamic Front will be part of a new coalition. During the last week, Mr al-Mahdi had been buying time to try to find a consensus to please all parties.

The NIF, however, has steadfastly refused to sign a political programme of action agreed by all other political parties and trade unions unless it contains a specific pledge to reintroduce Islamic sharia law.

Mr al-Mahdi's room for further political manoeuvre is rapidly shrinking. The army remains on full alert and the trade unions have been privately discussing the possibility of a general strike. University staff started a three-week strike yesterday, ostensibly for political purposes.

It is also apparent, though, that the prime minister, a consummate political tactician, has retained the initiative throughout the crisis. By stalling with skill and by calling the bluff of both the army and trade unions, he has damaged their credibility and divided their members. Although his position is precarious, he remains in the driving seat.

Bhutto and Sharif head for showdown of confidence votes

THE STAGE is set for a political showdown this week between Ms Benazir Bhutto, Prime Minister of Pakistan, and Mr Nawaz Sharif, her arch-rival, who is chief minister of Punjab and leader of the Islamic Democratic Alliance in national opposition.

Each faces a no-confidence vote sponsored by the other. The attempt to depose Mr Sharif will be made today by Ms Bhutto's People's Party of Pakistan in the Punjab provincial assembly, which is being recalled from recess; the vote against Ms Bhutto is being called for later by the IDA in the national assembly.

The PPP says it has the support of 38 IDA members of the Punjab assembly prepared to join them in a no-confidence motion. Only 31 are needed to unseat Mr Sharif, who was elected Chief Minister last December by a majority of 60. The anti-Sharif group seems to have offered the chief ministership to anyone who could bring 30 votes against him, while also promising ministries to all IDA members who vote against their leader. The struggle has its focus at Lahore, Pakistan's political capital, where slogans daubed on the ancient walls read "Democracy for Sale".

In retaliation, Mr Shujaat Hussain, the IDA parliamentary leader, has organised a no-confidence vote against Ms Bhutto in the national assembly. Sheikh Rasheed, an IDA member, said: "We will mobilise public opinion in every corner of the country against the prime minister and the PPP."

The rumpus is partly due to the fact that November's general election means, for the first time in Pakistan, that the party in federal government is not in power in Punjab, the most influential and populous province.

The PPP emerged as by far the largest party in the national assembly but did not secure an absolute majority, forcing Ms Bhutto to seek support of non-PPP members.

Also, the PPP fared worse in provincial elections and was able to form governments only in Sind and (in coalition) in the North-West Frontier Province, while the IDA took power in Punjab and joined a coalition in Baluchistan.

The PPP has had a hard time reconciling the loss of Punjab, its traditional power base, particularly to someone so much a product of previous martial law regimes as Mr Sharif. On the other hand, the IDA, many of whose members have little experience of being out of power, has a tough time reconciling itself to the role of opposition and seizes every opportunity to undermine Ms Bhutto. It is widely believed to have masterminded the recent local protests against Salman Rushdie, author of The Satanic Verses, in which seven people died, and to have organised religious conferences across the country which have declared that a woman cannot head an Islamic state.

Christina Lamb on political rivalry in Pakistan

The bitter confrontation between the centre and Punjab, causing an upsurge of Punjabi chauvinism and increasing polarisation of society, began the day Ms Bhutto took office as prime minister in December. She accused Mr Sharif of having tried to rig the general election and said he would be out of power in Punjab within two months. He retaliated by refusing to accept federal officials posted in Punjab and by reassessing cases of political prisoners released in Ms Bhutto's first action to blow away the cobwebs of martial law.

Pakistan's 11-year fight for democracy seems to have ended with each side using every means possible to win converts to its cause. Money and promises are exchanged in hotel car parks and shops in the old bazaar. Mr Pervez Ilahi, a Punjab Minister, says: "This is turning democracy into a stock exchange."

The position of Mr Sharif looks shaky, with many IDA members speaking out against him. Many have not taken to the idea of an industrialist ruling the feudal province and dislike the influence over him by the religious party, Jamaat Islami.

OVERSEAS NEWS

Arens faces US showdown over Palestinian uprising

By Andrew Whitley in Jerusalem

A SHOWDOWN is expected in Washington today over Israel's handling of the Palestinian *intifada*, or uprising, when Mr Moshe Arens, Israeli Foreign Minister, meets President George Bush and Mr James Baker, US Secretary of State.

That much is already guaranteed. Contrary to expectations before Mr Bush's inauguration in January, the new administration has made abundantly clear that it does not intend to press, or bully, the Israeli Government of Mr Yitzhak Shamir to act against its own inclinations.

Rather than try to square the circle in the Middle East, as Mr George Shultz, the previous Secretary of State, essayed in vain last year, the Bush-Baker team says it is prepared to deal with the facts

The sigh of relief in Jerusalem as this perception dawned was almost audible. A former US citizen and once ambassador to Washington, skilled in the ways of the District of Columbia, Mr Arens has been quick to capitalise on the soft-pedalling by the US.

Before he set off on Thursday, the Israeli Foreign Ministry was working hard to lower expectations of the first high-level contacts between the two new governments.

Suggestions that the Bush administration was expecting Mr Shamir to offer new ideas on advancing the peace process when he, in turn, travels to Washington next month – rather than a warmed-up version of the 1978 Camp David pact – have elicited only bland generalities from Israel

Talk of a dramatic gesture from Israel, such as the release of the 1,000 or so Palestinian "administrative detainees" being held without trial for long spells, so as to change the climate in the occupied territories, also appears to have fallen on deaf ears.

The best Mr Yitzhak Rabin, Defence Minister, could produce at the weekend was an announcement that, in some parts of the West Bank and Gaza Strip, paramilitary border police would be superseding regular troops.

Matching the low-key approach by the Secretary of State, the Israeli Foreign Minister is signalling that, at this stage, he would like to concentrate on procedure rather than content, exploring ways to begin negotiations towards an interim settlement. As always, though, the question immediately arises: "Who will represent the Palestinians?"

In place of the Palestine Liberation Organisation – towards which the Shamir Government shows no sign of giving an inch – the somewhat unrealistic idea being floated is that perhaps Egypt and Jordan could be persuaded to deliver a suitable delegation.

Arens: exploring ways to negotiation

In his talks today with Mr Bush, Mr Arens will feel obliged to repeat that cross-border raids by PLO factions constitute terrorism, and thus grounds for the US dialogue with the PLO to be ended.

However, he can have little real hope of persuading the new administration to drop one of its cards so easily. Aware of the dangerous erosion of grassroots support for Israel within the US and thus, increasingly, in Congress as well, strategic analysts say the Shamir Government may concentrate instead on cementing a solid, down-to-earth relationship with the executive branch.

Moving the focus away from the *intifada*, there is a not inconsiderable number of policy areas where the two governments can see eye-to-eye. In the first instance, they can agree to oppose the ambitious Soviet peace plan sketched by Mr Eduard Shevardnadze, Soviet Foreign Minister, during his tour of the Middle East last month. Here the risk exists of re-injecting an unwelcome note of superpower rivalry into the region.

For Israel, keen to assure the new US administration of its continuing value as a regional strategic ally, that need not be a bad thing.

Fostering the strategic co-operation agreement concluded in November 1983 during Mr Shamir's first term in office, intertwining US and Israeli interests even more closely, is bound to be a key objective of the new Shamir government.

"We need to change the perception of Israel as a recipient of foreign aid to that of a genuine strategic ally," said Mr Dore Gold, a leading expert on US-Israel relations.

Reflecting unspoken fears in Israel that the superpower rapprochement could end by weakening the Jewish state's bonds with its chief ally, he argued that the link between the peace process and strategic co-operation required the deepening of the co-operation pact – not its cancellation.

Vietnam to pay IMF token $5m before fresh talks on aid

By John Elliott in Ho Chi Minh City

VIETNAM is to pay the International Monetary Fund a token amount of slightly more than $5m (£2.9m), against a debt of $130m which has been outstanding since the 1970s, so as to pave the way for fresh international aid.

The amount to be repaid covers only a small amount of interest outstanding and is far smaller than the $40m which had been expected to be repaid, following earlier talks. However, Vietnam could not have afforded to repay such an amount or to organise a bridging loan.

The payment clears the way for negotiations to start soon on a loan of about $250m from the IMF's structural adjustment fund. Vietnam has agreed an economic stabilisation programme, including measures to bring the country's international exchange rate more in line with market rates and to try to curb inflation, which reached 700 per cent last year.

The stabilisation programme also includes measures to curb credit and money supply, and to restrain the Government's growing deficit. The plans include a reduction of subsidies.

The IMF's softening of its earlier demands for repayment from Vietnam, which has total outstanding debt of $8bn to the Soviet Union and the West, comes as the Government is stepping up its attempts to achieve economic reforms and is hoping that early withdrawal of its occupation force from Kampuchea will lead to urgently needed foreign aid and investment.

HK 'paves way for solving refugees issue'

By Michael Marray in Hong Kong

HONG KONG officials returning from the international conference on Indo-Chinese refugees, held last week in Malaysia, are confident that the colony's screening and repatriation policies have provided a role model which will be adopted within the region and pave the way for a solution to the refugee issue.

"This probably marks the end of automatic refugee status," Mr Geoffrey Barnes, Hong Kong's Secretary for Security, said yesterday, describing the conference as "a hinge in the history of the refugee problem.

"We are not in a resettlement era now, we are entering a repatriation era," he added.

Although a policy of mandatory repatriation was not spelled out within the Comprehensive Plan of Action endorsed by all parties represented in Kuala Lumpur, including Vietnam, it does specifically refer to the return to countries of origin for non-refugees, "reflecting the responsibility of countries of origin to their citizens."

"That provides us with a firm basis to go forward and develop our policy," Mr Barnes said, leaving Hong Kong's mandatory repatriation stance intact, even though the initial emphasis will be on voluntary repatriation.

Members of a co-ordination committee set up during the conference will visit Hong Kong on April 6 to study its screening. Mr Barnes said that "the role model of Hong Kong should be known to other countries in the region for their adoption if they so wish".

Of the 1,067 boat people who have been screened in Hong Kong since the process was introduced last June, 976 have been classed as economic migrants who will thus be repatriated. Only 91 have qualified as genuine refugees deemed to have been fleeing persecution at home.

Mr Barnes said that Hong Kong and Vietnam had agreed to move ahead with further voluntary repatriations, in the wake of the return of the first 75 boat people to Hanoi this month. A group of 150 who have already volunteered to return might leave for Vietnam in April.

Futures Exchange clearing starts today

By Michael Marray

THE HONG Kong Futures Exchange (HKFE) will have a new clearing house subsidiary in operation today.

It will clear all trades, be a counter-party to all transactions, assume risk management functions, and develop its own reserve fund eventually to supersede the Government-led lifeboat facility for trading in Hang Seng Index futures contracts, which was negotiated during the 1987 market crash and is to expire at the end of October.

The new Clearing Corporation (HKCC) will have a share capital of HK$1m (£74,350), with a HK$8m subordinated loan from the Futures Exchange to support soyabean, gold and sugar contracts.

The International Commodities Clearing House (ICH) has been contracted to deal with trade entry, registration, order processing and margin control.

Ten member brokerages have pledged HK$60m to the new reserve fund, with HK$40m more expected from other clearing members before October. Also, the HKCC will have the use of HK$50m of insurance available from today, and is arranging a HK$50m bank guarantee or facility. These will bring the reserve fund to a total of HK$200m, in order to support trading in Hang Seng Index Futures contracts from November 1.

The establishment of the new clearing house is a vital step in the rehabilitation of the Futures Exchange, where turnover has dwindled since the 1987 debacle. In another move aimed to enhance trading activity, the exchange plans to introduce an interest rate contract this year.

S Africa law commission urges universal suffrage

By Anthony Robinson in Johannesburg

A GOVERNMENT-appointed law commission has called for South Africa to rid itself of its apartheid legacy by introducing a Bill of Rights and universal adult suffrage.

A special working group of the South African Law Commission, under Mr Justice Olivier, was set up in April 1986 near the end of the reformist phase of the Botha Government. Its mandate was to investigate and advise on the feasibility of a political system, based not on ethnic group rights but on individual rights similar to those enshrined in the US Bill of Rights.

Its report, issued this weekend, calls on parliament to endorse the idea of a bill of rights and concludes: "There is no way in which the withholding of the vote from black persons can be legally justified."

It calls on the Government to "purge the statute books" of all discriminatory laws – such as the Land Act, the Separate Amenities Act and the Group Areas Act – "as soon as possible after the tabling of the commission's final report."

It also calls for the drafting of a new constitution, to be given general legitimacy through ratification by means of a "single, general, open referendum" in which people of all races would vote.

The Olivier report as published is a working paper of the commission and open to submissions and comment before it goes to Parliament this year. Its far-reaching proposals are expected to provide a framework for legal and constitutional changes whose urgency has been underlined in recent weeks by the conflict between theailing President P W Botha and his successor as party leader, Mr F W de Klerk.

SHIPPING REPORT

Tanker market rates fall

By Kevin Brown

RATES FELL in the tanker market last week as owners of surplus tonnage continued to compete for cargoes, especially in the Middle East Gulf, the most important loading area.

Brokers said there were about 15 vessels seeking employment in the Gulf at the weekend, and the surplus was expected to increase in the coming week.

E. A. Gibson, shipbrokers, said Japanese charterers had been able to fix a 240,000-tonne vessel to Japan at New Worldscale 34.5, while a slightly larger ship was fixed at New Worldscale 32.5 for discharge in the Caribbean.

An ultra-large crude carrier of 345,000 tonnes was also reported to have been fixed at New Worldscale 30 for a similar voyage. Smaller ships did not come under the same pressure, but rates depreciated by up to 15 points. A ship of 80,000 tons was fixed to Singapore at New Worldscale 100.

West Africa remained the one bright spot in the tanker market. A cargo of 130,000 tons was fixed to the US Gulf at New Worldscale 75, and a ship of 250,000 tons was fixed at New Worldscale 37 in the same trade. Owners were hoping that the market would not be swamped by an input of additional tonnage from the Middle East Gulf.

In the dry cargo market, the recent upward trend was strengthened by rumours of impending Soviet demand for up to 15 Panamax vessels.

Brokers said rates for the Atlantic round-trip were now up to about $14,000 a day, a rise of about $1,000 over the past month.

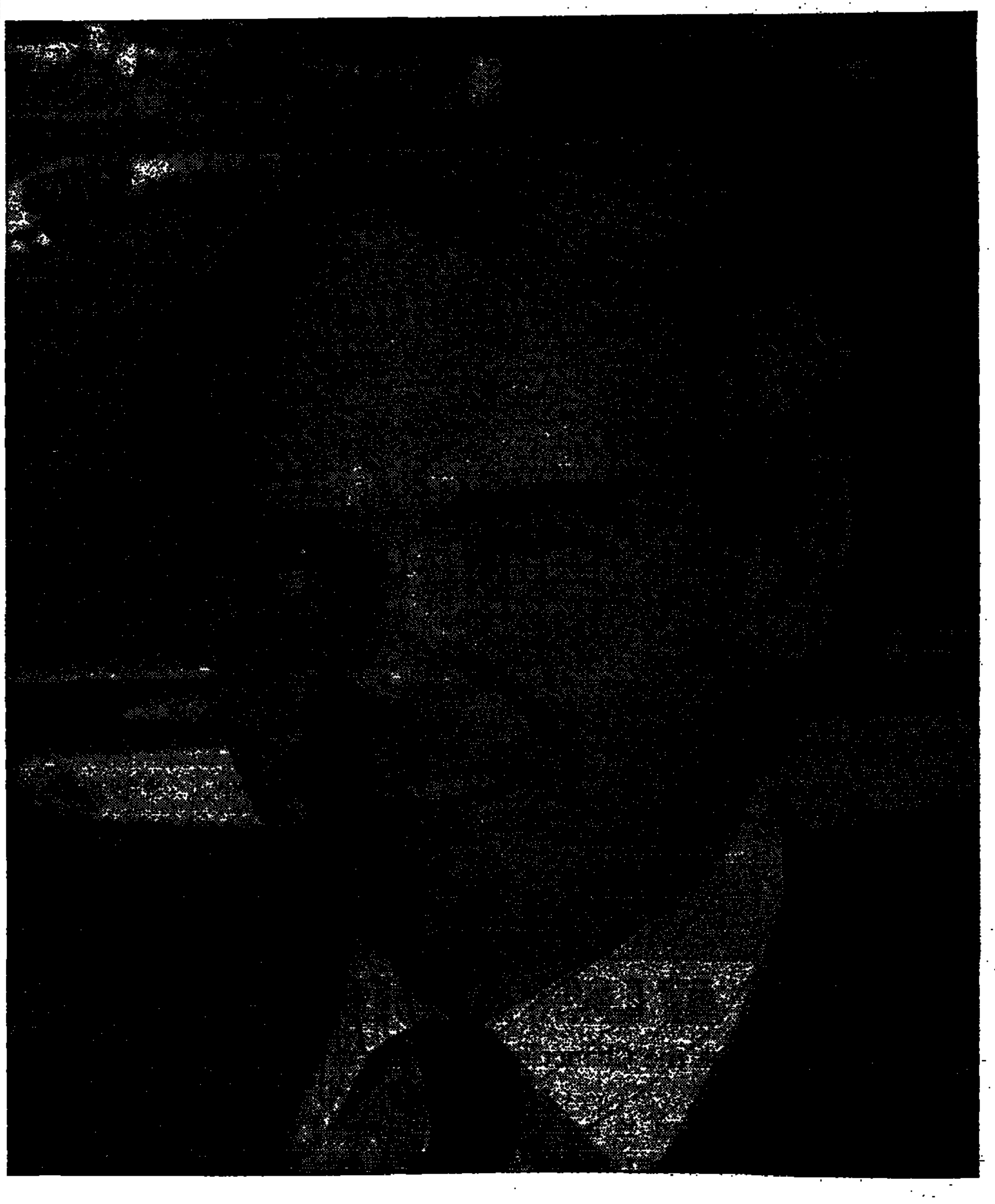
In the East, rates are still firm, with round-voyages to Australia at about $14,000 a day for early March departures from Japan or Korea.

WORLD ECONOMIC INDICATORS

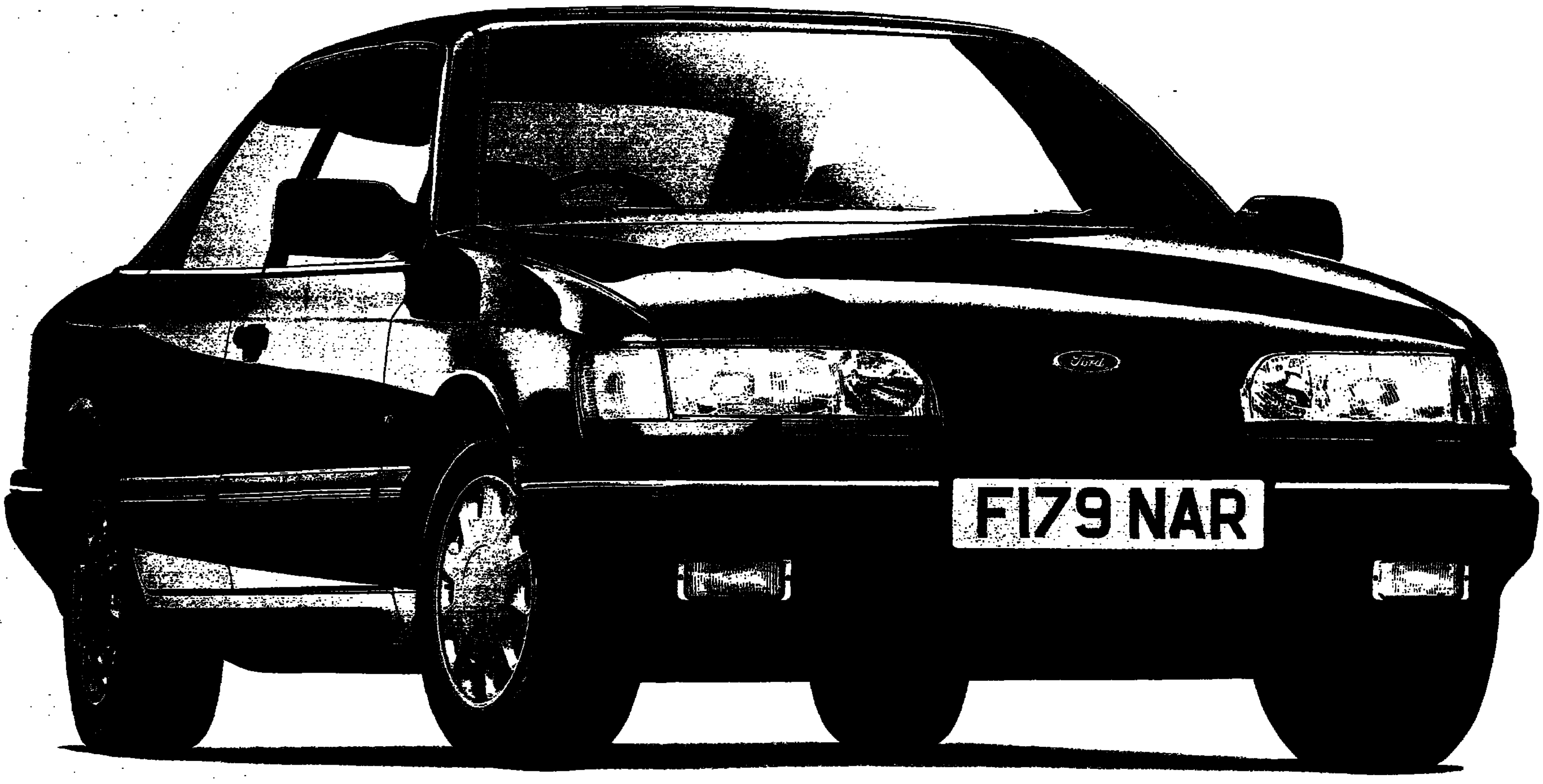
UNEMPLOYMENT

	Jan '89	Dec.'88	Nov.'88	Jan.'88
USA 000's	6,716	6,554	6,663	6,960
%	5.4	5.3	5.4	5.8
UK 000's	2,074	2,047	2,067	2,722
%	7.4	7.3	7.3	9.7
Japan 000's	1,430	1,440	1,480	1,680
%	2.3	2.3	2.4	2.7
W. Germany 000's	2,076	2,149	2,200	2,249
%	8.0	8.3	8.5	8.8
Belgium 000's	389.8	378.8	373.5	432.3
%	10.5	10.7	10.7	11.7
	Dec.'88	Nov.'88	Oct.'88	Dec.'87
Netherlands 000's	689.9	676.6	678.2	697.0
%	13.8	13.9	13.9	14.3
Italy 000's	3,847	3,866	3,870	3,447
%	16.6	16.6	16.7	14.8
	Nov.'88	Oct.'88	Sept.'88	Nov.'87
France 000's	2,617	2,654	2,633	2,670
%	11.2	11.3	11.2	11.4

Sources: National statistics, Eurostat



"I think the time is right to make a move like this."



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It's a special model called the GLS, of which only relatively few are planned.

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This can be matched to our sophisticated four speed automatic gearbox with its high overdrive top gear or, if you feel inclined, to our new five speed manual. They both cost the same so your choice is purely a matter of preference.

As with all Granadas, the performance is held in check by electronically controlled anti-lock brakes, a feature that Ford has done so much to pioneer. With traffic conditions increasingly fraught, it's reassuring to have them.

Behind the wheel you'll find that everything is designed to make handling this car as enjoyable as possible. The comfortably contoured driver's seat with its pneumatic lumbar support will hold you securely in place when the road twists and turns.

The dashboard has a full complement of clearly designed instruments including a rev counter and a graphic display which warns you of everything from bulb failures to open doors and icy conditions.

And the list of standard features at your finger-tips is endless – headlight wash, electric windows, electric door mirrors, tilt or slide sunroof, a superb electronic radio/cassette sound system – you could be forgiven for thinking you were driving a Ghia, for the GLS is just as well equipped.

The big difference is, though, that the maxi-mum retail price of the GLS is considerably less.

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Drive on the bright side.

Ford

"It is absolutely right that the effort should be on a local basis."

UK NEWS

BSB shareholder concern over 'squarial' production

By Raymond Snoddy

AT LEAST one principal shareholder in British Satellite Broadcasting is considering asking for an independent technical audit of the planned £700m project to see whether everything really is on schedule, as the management claims.

Concern centres on whether the "squarial," BSB's small, flat aerial system, will be available in volume in time for the launch of the company's three channels of satellite television in September.

Negotiations continued all last week between BSB and Mr John Collins and his personal company Fortel, which has been developing the plastic 12-*inch square antenna* since an original agreement was signed last August.

BSB – whose leading shareholders include the Bond Corporation of Australia, Granada, Pearson, the publishing and industrial group that owns the Financial Times, and Reed International – has been negotiating, it is believed, to buy out patent rights to the technology.

No agreement has yet been signed, although that might happen this week. As a result, no manufacturing contracts have been given and work has not begun on making the tools for the complex injection moulding equipment needed to make the squarial.

Although BSB senior management insist that a squarial, either the Fortel version or an alternative being produced by GEC Marconi, will be on time, some internal BSB estimates suggest that the supply of squarials might lag behind production of receivers – the piece of equipment that converts the satellite signal – by three months.

The issue is important because BSB, which has also applied for two further channels, has already begun a £20m advertising campaign on television with the slogan "Be Smart – Be Square." BSB says it owns the rights to the squarial trademark.

The need for an independent technical assessment of the BSB project might be met in part by a study started last November by consultants Price Waterhouse.

As part of the preparation for a £400m flotation planned by BSB this autumn, Price Waterhouse has been carrying out critical path studies for the entire project up to the launch. Although not aimed specifically at the aerial and receiver system, the Price Waterhouse document is to be presented to a BSB board meeting next week.

If the Price Waterhouse report is positive, it would help to reassure shareholders in the high-risk project that there is no air of complacency in the battle to establish BSB as a business in the face of competition from Mr Rupert Murdoch's Sky Television. Sky launched four channels in February and plans to add a fifth, The Disney *Channel, on* August 1.

BSB also seems to have been slow in developing the potential of feeding blocks of flats with its signal using just one aerial.

As BSB comes under Independent Broadcasting Authority regulation, it does not need to apply to the Cable Authority for special communal satellite master antenna television licences.

Labour criticises white paper, Page 10

Telecom given approval for field trials of fibre-optic TV

By Hugo Dixon

THE Trade and Industry Department has given preliminary approval to British Telecom to send television pictures over a fibre-optic communications network for a field trial in Bishop's Stortford, Herts.

The move is a small, potentially significant relaxation in the Government's policy of preventing BT and Mercury, its rival, from networking television. It might give British manufacturers, which have developed key fibre-optic technologies, valuable experience in building the networks.

Telecommunications operators across the *industrialised* world, in the US and Japan as well as in the UK, have been urging governments to let them put out television and telephone traffic on the same networks.

That has been resisted until now on the ground that the operators would add television-distribution monopolies to their telecommunications monopolies.

Those policies were criticised in that they retarded investment in fibre-optic networks. The networks can carry an almost infinite amount of information. However, operators say it does not pay to instal them for residential clients if they are prevented from delivering television, which they consider the most attractive earner.

There have also been worries that UK industry might lose its strong position in fibre-optic technology if a market for its products were not allowed to develop. Fibre-optics are being installed on BT's long-distance routes and for business users but volumes are not big enough to cut costs of some components such as lasers.

BT said the decision in principle to let it proceed with a field trial would give UK industry hands-on experience of supplying the system, and a competitive edge.

It was still discussing how to proceed with the trial, which it expected to undertake with manufacturers. The most likely companies are STC, GPT and BICC.

The Government has made clear that its overall policy of preventing BT from putting television down its network will not be changed, at least until November 1990.

BT may be freed from Mitel sales restrictions

By Hugo Dixon

RESTRICTIONS imposed on British Telecom by the Government when it bought 51 per cent of Mitel, the Canadian telecommunications manufacturer, in 1985 seem likely to be eased.

The restrictions were designed to prevent BT from abusing its then dominant position in the distribution of private exchanges, which are used to route telephone calls around companies. Mitel is a leading manufacturer of such exchanges.

At the time of the acquisition, the Monopolies and Mergers Commission expressed concern that BT might promote Mitel products through its distribution channels, to the detriment both of other distributors of Mitel products and of other manufacturers of private exchanges.

BT was therefore prevented from engaging in joint marketing of products with Mitel. A quota was also imposed, limiting BT's sales of Mitel exchanges to the quantities it had sold in the year before the acquisition.

However, BT recently asked the Office of Fair Trading, which is responsible for monitoring the restrictions, that they should be eased. It argued that both its market share as a distributor and Mitel's share of the private exchange market had fallen since the acquisition, as a result of intense competition from new groups.

BT pointed out that GEC and Plessey had merged their telecommunications interests to form GPT, which manufactures about 75 per cent of the medium or large private exchanges sold in the UK. Meanwhile, STC had linked up with Northern Telecom of Canada; Siemens of West Germany had acquired Norton Telecom, one of the leading distributors of the exchanges; and GEC and Siemens had bid for Plessey.

The OFT last month finished a consultation exercise on the subject with interested parties and has now referred the matter to the Office of Telecommunications, which it regards as the expert on the subject. "We are extremely likely to take Oftel's advice," an official said.

UK NEWS

British Gas set to lose sole rights in N Sea

By Max Wilkinson, Resources Editor

THE GOVERNMENT is expected to announce new rules next week which will end British Gas's position as the sole purchaser of gas from the UK sector of the North Sea.

The rules change follows a review by the Office of Fair Trading after a recommendation from the Monopolies and Mergers Commission.

The commission's suggestion that British Gas should be restricted to purchasing 90 per cent of the output of all new fields was strongly opposed by the oil companies, some of which said the idea was unworkable.

British Gas was also against the idea, saying at one time that it would have the effect of pushing up its purchase costs. It feared that it might be obliged to pay for the capital cost of developing a whole field through prices charged on only 90 per cent of the output.

The OFT's recommendations, now with the Department of Trade and Industry, appears to have gone only some way to relieving the oil companies' anxieties.

Its recommendations, which are expected to be approved by Lord Young, the Trade and Industry Secretary, will require oil companies to sell at least 10 per cent of North Sea gas to other purchasers than British Gas.

This is intended to encourage competition in the industrial gas market. However, it is likely that developers of North Sea fields will be allowed some flexibility provided that they follow the spirit of the Monopolies Commission recommendation.

This means that they may not have to divide every field into 90 per cent and 10 per cent tranches.

One senior oil company executive said yesterday: "The genie is out of the bottle now. However the new system turns out, it is clear that competition will come into the gas market and some people in the industry are eagerly looking at the opportunities."

The Monopolies Commission also recommended that British Gas should publish a schedule of tariffs in the industrial market.

The company said at the weekend that it expected a majority of its industrial customers to receive reduced gas bills as a result of the new open system of charging which has now been agreed with the Office of Gas Supply (Ofgas), the regulatory body for the industry, and approved by the Government.

However, the new system of published price bands in place of negotiated contracts will result in higher prices for some larger customers.

British Gas said that it planned to announce special arrangements to help smooth the transition to higher prices over a 12 month period for those adversely affected.

Mr James McKinnon, director general of Ofgas, is expected to give formal approval to the new schedules this week and the Government will ratify changes to British Gas's licence under the Gas Act 1986, to give Ofgas power to supervise the structure of industrial tariffs.

Full details of the new system, which is due to come into operation on May 1, will be published soon, British Gas said, probably on Thursday.

It will involve 11 price bands for customers taking supplies which may not be interrupted and seven bands for supplies which may be interrupted at peak periods.

The bands will apply to customers with different levels of demand. Within each band, customers will be able to chose different types of contract.

THE BUDGET

Opposition urges more investment

By Peter Norman, Economics Correspondent

OPPOSITION spokesmen stepped up their demands at the weekend for the Government to change its economic strategy and invest in Britain's economic infrastructure.

With Mr Nigel Lawson, the Chancellor, expected to announce limited tax cuts for 1989-90 and massive government surpluses in his budget speech tomorrow, Labour and Democrat politicians both urged a re-direction of resources towards investment in research and development, the regions, the national health service and education.

Mr Roy Hattersley, Labour's deputy leader, said Mr Lawson should direct national resources towards the environment and transport systems and invest in "the nation's health and in the nation's well-being."

In a weekend speech, Mr Paddy Ashdown, the leader of the Democrats, called on the Chancellor to improve public services. "It is a peculiar Chancellor who has a surplus of perhaps £15,000m but cannot find any money to invest adequately in education, the environment, the National Health Service or other public services," he said.

While the opposition statements will have no impact on Mr Lawson's sixth Budget, they suggest that management of the economy will be a subject for acrimonious political debate in the weeks ahead.

Mr Lawson is generally expected to adopt a cautious macro-economic position in his budget, consistent with his overriding objective of reducing inflation from its current 7.5 per cent annual rate. He is expected to announce some tax reductions, mainly to help the lower paid.

However it remains unclear whether he will opt for a modest one percentage point cut in the basic income tax rate to 24 per cent or opt to increase tax thresholds by considerably more than the rate of inflation or attempt a combination of the two.

Despite a Government revenue surplus of perhaps £14bn in the current financial year, the City of London expects Mr Lawson will announce net tax cuts of about £2bn. This would represent a tightening of the Government's fiscal stance. Mr Lawson would have to announce tax cuts of between £4bn and £5bn to compensate for "real fiscal drag" where the burden of taxation in the economy rises as a consequence of increased wages.

Industry's wish list for a brighter future

By Terry Dodsworth and Andrew Taylor

IF THE collective representative of British industry were standing at the national budget despatch box on Tuesday, there is little doubt what his economic prescriptions would be.

He would cut interest rates and attempt to reduce the sterling exchange rate. He would reduce corporation tax and launch some incentives for research and development expenditure. There is little surprising about this wish list or some of the proposals – most of these make an annual appearance at about this time.

But there is, nevertheless, a new factor in industry's attitude to this year's budget. Compared to a year ago, businessmen are increasingly anxious about the direction of the economy and their ability to maintain the steady improvements in profits and balance sheets of the past few years.

At the centre of these worries lies the upswing in interest rates. Industrialists acknowledge that this has been engineered to squeeze consumers, not the corporate sector. But costlier money still hurts.

This rise in the cost of money would be easier to bear if it were hitting overseas competitors equally hard. Yet the internationalisation of industrial markets has not been matched by an equal convergence of financial markets. Borrowing is cheaper in Frankfurt or Tokyo than in London.

The strong pound, a corollary of higher interest rates, is acknowledged as a useful implement in the fight against inflation through the reduction in the cost of imported raw materials.

Nevertheless, many industrialists stress the problem sterling poses in their drive to increase exports and thereby redress the trade balance.

It is foolish, they say, to argue that restraining domestic demand through interest rates will force companies to expand overseas if, at the same time, export markets become less accessible because of an over-priced pound.

For other companies, sterling presents a different problem. Imperial Chemical Industries stresses the translation effect on its reported profits – the company calculates that its profits were £100m lower last year than they would have been on the basis of the previous year's rates.

Taxation is also on the mind of many of Britain's industrialists, with some companies arguing that a reduction in corporation tax would help maintain profits and stimulate investment.

Mr Allen Sheppard, chairman of Grand Metropolitan, the food and drinks group, would go further. The Government, he says, should "reduce corporation tax immediately from 35 per cent to say 32 per cent, with a promise of a further cut if business supports government initiatives on training and on inner city regeneration."

A further recommendation is to allow increases in company research and development expenditure against tax. "More and more people are becoming aware of the dangers to the economy if we let research slip behind," says Mr Alan Carnell, past president of the Electronic Engineering Association, and an executive at Racal Decca.

But on one issue, executives are virtually united. The Government, they say, is in danger of hitting British industry with increased public sector costs. These additional costs range from the proposed new uniform business rate, to the coming increases in electricity and water prices, and the general increase in inflation over the last year.

At the moment, says Mr Carnell, those costs which the Government influence are higher in Britain than on the Continent. "If they still are in 1992, we shall be in trouble."

Employment outstrips predictions

By Ralph Atkins

EMPLOYMENT in Britain grew much faster last year than previously thought and comfortably exceeded falls in unemployment, according to figures published today by the Department of Employment.

Its estimates, based on results of a 1988 survey, highlight the buoyancy of economic growth last year when the employed workforce reached record levels.

Figures for manufacturing employment in Great Britain in the year to September have been revised to show a rise of 60,000 to 5.15m compared with earlier figures showing a fall and reversing a trend decline through the 1980s.

The survey also shows unemployment, according to internationally agreed definitions, fell by 505,000, or 17.5 per cent in the year to spring 1988. That was almost as fast as the 540,000 decline shown in figures based on those claiming unemployment-related benefits. The survey includes those available to work and seeking employment. In 1987 it showed unemployment fell far less than shown in the claimant count.

The survey shows the number of individuals in employment or looking for work rose to 27.49m last spring, an increase of 362,000 compared with 1987. Employment increased by 3.6 per cent, more than explaining the fall in unemployment.

Britain leads in overseas takeovers

By David Waller

UK COMPANIES spent four times as much on cross-border takeovers last year than their counterparts in any other country, according to a survey on the international mergers and acquisitions scene published today.

The analysis by KPMG, the international accountancy firm that includes Peat Marwick, shows that UK companies spent a total of \$44.53bn (£25.22bn) on 884 international acquisitions in 1988. That was 33 per cent higher than the total in the 12 months to June 30 1988, KPMG said.

The nearest rival was France, with \$11.16bn spent in 143 deals, closely followed by Japan, with 81 deals worth \$11.02bn. Canadian companies spent \$10.7bn in 79 deals, and US companies spent \$9.35bn in 471 transactions.

The UK dominated overseas investment in North America, accounting for 46 per cent of the nearly \$72bn spent by foreign companies. Overall, the UK spent 70 per cent by value of cross-border purchases by European Community countries.

The UK was also the most popular target country for cross-border acquirers wanting a foothold in the EC ahead of 1992, whether from other EC countries or from outside the community. Some \$17.74bn was spent on UK companies.

For every £3 spent by UK companies on domestic fixed assets investment, £1 was spent on acquisitions overseas. As a proportion of total investment, that is higher than for any of the other large-spending countries. In Canada, the ratio of domestic to overseas investment was 9.5 to 1; in France, 15.8 to 1; in the US, 76.5 to 1, and in Japan, 78.8 to 1.

RATIO OF DOMESTIC INVESTMENT TO FOREIGN ACQUISITIONS 1988

Country	*Domestic Investment \$m	Foreign acquisitions \$m	Ratio #
UK	128,969	44,530	2.9
Ireland	5,140	1,598	3.2
Switzerland	38,970	8,907	4.4
Canada	10,1694	10,708	9.5
New Zealand	7,448	691	10.8
Australia	62,162	5,730	10.8
Sweden	30,978	2,134	14.5
France	176,526	11,162	15.8
Belgium	21,280	827	25.7
Norway	23,704	720	32.9
Neths	43,098	1,276	33.8
Finland	20,995	347	60.5
US	715,300	9,354	76.5
Japan	869,316	11,025	78.8
Denmark	18,825	224	84
Germany	231,096	2,752	84

* Domestic Investment is based on Gross Domestic Fixed Capital Formation figures, and ignores foreign investment undertaken through existing foreign operations and R&D expenditure

\# Ratio of domestic to foreign investment

There were 17 deals last year worth more than \$1bn last year, including Grand Metropolitan's \$5.8bn takeover of Pillsbury, Beazer's \$1.7bn purchase of Koppers, Péchiney's \$4bn acquisition of American Can and Nestlé's \$4.9bn successful bid for Rowntree.

But in terms of numbers, takeover activity continued to be dominated by transactions with a price tag of less than \$100m. Of the 884 purchases by UK companies last year, 813 were worth less than \$100m.

EC companies and, to a lesser extent, Swiss, Antipodean and Japanese groups, led the way in the transfer of North American assets to foreign ownership. Activity in the other direction was relatively restrained, worth only \$9.35bn; the largest North American acquisition, Seagram's purchase of Martell, ranked only 18th in size globally.

Canadian companies spent more beyond their borders than their US counterparts, thanks to Campeau's \$6.6bn mammoth US purchase of Federated Department Stores (US), which swelled the total to \$10.7bn.

Elsewhere, the survey shows the beginnings of Japanese interest in international bids and deals, and something of a reversal for the Antipodeans who were so active in advance of Black Monday.

Of Japan's \$11.02bn in overseas acquisitions, \$8.38bn was deployed in North America. The figures were boosted by two significant transactions: Bridgestone's \$3bn purchase of Firestone in the US and Seibu Saison's acquisition of Inter-Continental Hotels in the UK for \$4.9bn.

Australia and New Zealand, two countries whose companies had been aggressive overseas buyers before the October 1987 stock-market crash, found themselves on the opposite end last year. Overseas buyers spent \$6.86bn in the two countries, buying 102 companies.

KPMG's figures were compiled from a total of 2,326 international acquisitions in 1988 with a gross value of \$118bn. The deals involved buyers in 37 countries making acquisitions in 37 countries.

The KPMG report, Deal Watch 1989, is available from Sue Butterfield, KPMG Peat Marwick McLintock, 1 Puddle Dock, Blackfriars, London EC4V 3PD. Tel 01-236 8000.

BR signals switch to healthy eating

By Rachel Johnson

WHOLEWHEAT lasagne and vegetarian chilli, rather than burgers and bacon and tomato rolls, may be the new travellers' fare on InterCity trains from September.

InterCity hopes that a range of "lighter, healthier meals" will be available this autumn, following a review of trains' catering, which loses the sector £5m a year.

Two weeks ago InterCity introduced a pilot scheme on its London-Birmingham-Wolverhampton service, to test public response to a new range of health-conscious, vegetarian dishes.

The company says it is too soon to judge whether the consumer's appetite has been whetted for the new fare it wants to introduce on all its trains in the autumn.

Catering is provided on over 1,000 trains during the week by InterCity On Board Services. Although the revenues from the sale of food and drink *on trains rose by 19 per cent in* 1987-88, the net cost of providing the services increased by £4m to £12m.

InterCity is keen to provide a wider range of meals for more customers, while at the same time reducing the high yearly deficit on catering.

It is therefore intent on retaining the expense-account business customer on the Pullman services, which offer à la carte menus at higher prices, even though the Consumers' Association has criticised InterCity for "targeting the businessman and driving away the average consumer" and for "patchy availability of food."

Mr Peter Northfield, of InterCity, said: "It is quite true that we have targeted the top end of the range. We are taking the airlines head-on, and we are in competition with the company car."

A range of cook-chill dishes, known as Cuisine 2000, is prepared in fixed-base kitchens and will continue to be available on the Pullman services. But Trust House Forte, which currently prepares a third of the dishes, will not necessarily have a contract with InterCity this autumn.

"The Cuisine 2000 main meal offer didn't work," said Mr Terry Coyle, of InterCity On Board Services.

"Although the cook book offered no bounds, the wastage on the cook-chill meals was high. We will not use the same suppliers, but those who provide the best value and a quality product."

InterCity admits that the business customer's needs are its prime concern. The number of travellers using Pullman services increased by 40 per cent last year, but the current review is intended to increase "customer satisfaction" for all types of ticket holder. Availability of food on a greater number of trains is also a high priority for the autumn.

"We are trying to plug the *gap between the hot take-away* snack and the main meal," said Mr Coyle.

Both InterCity management and the British Railways Board will have to approve the review before the sector starts introducing wholewheat lasagne on all its trains. But some things will not change.

The Great British Breakfast, sales of which topped 650,000 this year, is to remain, even though it is a victim of its own success. Half of all meals served during the 18-hour day on a train are breakfasts, and staff have to provide them all within a 90-minute period.

The on-board sandwich, too, will still be available, as sandwiches, unlike main meals, make money. Last year, sales of sandwiches rose to £7.5m from £2.5m in 1987.

In spite of criticism by the Consumers' Association of the cost of food on trains, InterCity's review is unlikely to recommend that services on trains become cheaper, because the company's current catering deficit will not allow prices to come down.

The high infrastucture costs, the long hours, and the fact that InterCity is entirely reliant on suppliers for all its meals except the Great British Breakfast, means that next year prices will still be high. But the company hopes the range of food will be greater, and healthier.

Record year in prospect as truck sales increase again

By John Griffiths

TRUCK SALES last month rose sharply again, leaving UK vehicle makers considering the prospect, albeit faint, of a record market this year for the first time for a decade.

As recently as 12 months ago, UK truck makers discounted the chance of UK truck sales ever reaching the 80,000-unit level of 1979, the last boom year before the world truck market collapsed under the second oil crisis.

Since then, formal analyses of the UK market, and leading truck making figures, have said demand for new trucks would be unlikely to rise above 60,000 units a year even in a UK economic boom.

That was because operators would need fewer trucks, having been made more efficient by computerisation of distribution and by legislative approval for larger, 38-tonne trucks some years ago.

However, by the end of last year the market for trucks over 3.5 tonnes had risen by 17.2 per cent for the 12 months, to reach 67,918 units. Further, the latest statistics from the Society of Motor Manufacturers and Traders show faster growth in the first two months of this year.

Last month, sales of trucks *over 3.5 tonnes rose by 21.83* per cent to 5,971 units, from 4,901 units, compared with the corresponding month a year ago. In January, sales in the sector rose by 20.28 per cent.

The trucks sector was by far the most buoyant of all commercial vehicle sales last month.

Sales of all commercial vehicles last month totalled 31,450 units, up by 8.77 per cent on the 28,913 units of a year before. However, that represented a slackening on January when the overall market rose 15.48 per cent on a year-on-year basis.

The market for light vans, mainly those derived from cars and microvans, rose by 9.39 per cent, compared with February last year, to 10,161 units from 9,288 units; that for panel vans rose by 5.5 per cent last month, to 13,529 units from 12,805 units.

Sales of light utility four-wheel-drive vehicles fell, by 10.2 per cent, to 1,552 units from 1,727.

A positive development, from the UK Government's viewpoint, was a slight reversal last month of the trend by importers to take an ever larger share of the market.

Imports accounted for 39.29 per cent last month, compared with 39.41 per cent a year ago. But their first two months' share, at 39.32 per cent, is still up on the 39.22 per cent of the corresponding period last year.

UK COMMERCIAL VEHICLE REGISTRATIONS JAN-FEB 1989

	Volume (Units)	Volume Change (%)	Share (%) Jan-Feb 89	Share (%) Jan-Feb 88
Total Market*	64,862	+12.13	100.00	100.00
Imports	25,492	+12.42	39.32	39.22
Small vans (up to 1.8 tonnes)				
Total	21,866	+12.14	100.00	100.00
Imports	6,211	+11.53	29.46	29.62
GM (Bedford)	5,343	−4.76	25.34	29.83
Ford	6,713	+33.15	31.84	26.77
Rover Group	3,847	+20.41	18.24	18.99
Peugeot (incl. Citroen)	1,778	+4.71	8.43	9.03
Renault	1,060	+1.53	5.03	5.55
Medium Vans (1.81−3.5 tonnes)				
Total	27,415	+10.18	100.00	100.00
Imports	12,278	+15.24	44.79	42.82
Ford	13,443	+18.74	49.04	45.12
DAF (Freight Rover)	2,803	+11.58	10.22	10.10
Renault	2,022	+4.39	7.38	7.78
Nissan	1,500	−15.92	5.47	7.17
Peugeot (incl. Citroen & Talbot)	1,452	−0.82	5.30	5.87
Mercedes-Benz	1,350	same	4.92	5.43
GM (Bedford)	1,457	+4.29	5.31	5.61
Trucks (over 3.5 tonnes)				
Total	12,413	+21.02	100.00	100.00
Imports	5,267	+25.70	42.43	40.85
Iveco Ford	2,755	+18.55	22.19	22.66
DAF (Leyland DAF)	2,503	+17.46	20.16	20.78
Mercedes-Benz	1,830	+20.16	14.74	14.85
Volvo	1,508	+23.00	12.15	11.95
Renault (RTI)	753	−3.83	5.66	7.13

*includes buses and light four-wheel-drive utility vehicles

Source: Society of Motor Manufacturers and Traders and industry estimates.

Labour urges safeguards for TV quality

By Charles Hodgson

THE LABOUR Party today calls on the Government to abandon proposals to award new commercial television franchises to the highest bidder and to ensure that programming plans by negotiating companies are subject to detailed examination.

In its formal response to the white paper on the future of broadcasting, Labour shares fears expressed by the independent television companies that awarding commercial franchises to the highest bidder will damage both the range and quality of programmes.

It recommends that franchises should only be awarded after detailed negotiations with a franchise authority, which would be required to obtain assurances about the range, content and quality of programming.

Franchises would be awarded according to the authority's judgment as to which company was most likely to meet the stipulated requirements.

*Labour argues that the pro*vision of a wide range of high-quality programmes demands that television franchises are not concentrated in the hands of a limited number of individuals or companies.

While the white paper reiterates the importance of diversity of ownership, it offers neither proposals on the number of companies that can come under the control of a single organisation nor rules limiting foreign ownership.

Labour proposes that no independent television franchise should be offered to a company registered outside the European Community and that no individual organisation should be permitted to own or control more than one franchise.

It also calls on the Government to make clear that it proposes to apply rules on cross-ownership at least as strict as those governing newspapers and calls for an immediate sectoral reference to the Monopolies and Mergers Commission on the general issue of overlapping media ownership, to examine whether more stringent regulations are required.

Labour insists that Channel 4 should continue to obtain its revenue indirectly through advertising sold on its behalf by the ITV companies and that the licence fee should remain the main source of BBC income for the immediate future.

However, it suggests that *when the BBC Charter comes* up for renewal, the government of the day should examine alternative methods of providing government revenue for the corporation and argues that subscription services cannot provide a legitimate alternative to public funding.

It also urges an immediate inquiry into the availability of advertising to finance the range of commercial services proposed by the Government.

"If we can't make something out of this for business in Britain, we don't deserve to succeed."

Scots Labour backs unilateral policy

By James Buxton, Scottish Correspondent

THE LABOUR Party in Scotland , one of Labour's strongest bastions, delivered a blow to Mr Neil Kinnock, the party's leader, at the weekend by voting overwhelmingly to retain Labour's policy of unilateral nuclear disarmament.

At its annual conference in Inverness it approved motions calling on Labour to use its forthcoming defence review to reinforce its unilateralist stance.

Mr Martin O'Neill, Labour's defence spokesman, listened in silence to a debate in which not a single speaker voiced support for any change in policy.

The decision of the party in Scotland, while not unexpected, given its solidly anti-nuclear stance, will not make Labour's forthcoming defence review any easier.

The Inverness conference showed a *party that is now* cheerful and confident, in marked contrast to the crisis that was caused by its shattering defeat in the Govan by-election last November at the hands of the Scottish National Party.

Apart from the fact that Labour appears to be doing well in opinion polls throughout Britain, the party in Scotland has been boosted by the SNP's decision to pull out of the constitutional convention – a body aimed at devising a formula for a Scottish assembly.

The atmosphere at the conference was unusually harmonious, even in the debate on the community charge or poll tax, in which the party reaffirmed its opposition to non-payment, while recognising the right of individuals not to pay it.

The conference unanimously approved a resolution backing the constitutional convention and its efforts to secure a Scottish assembly.

The party sidestepped another controversy by avoiding a vote on the question of whether Labour at the next general election should offer the voters a so-called dual mandate.

That would mean that if Labour failed to win the next election, Labour voters would still be deemed to have approved the setting up of a *Scottish assembly and Labour* MPs might leave Westminster to create it.

The resolution was remitted to the party's executive for further discussion.

However, Mr Donald Dewar, the shadow Scottish Secretary, made clear that the party leadership disapproved of the idea.

In a well received keynote speech he said: "We should not be distracted by a fall-back position which can be interpreted as a lack of confidence in our future."

Hill Samuel in French partnership

By David Lascelles, Banking Editor

HILL SAMUEL, the merchant banking subsidiary of the TSB group, has signed an exclusive corporate finance partnership arrangement with Siparex, a French development capital house based in Lyons.

The arrangement is the latest in a series of partnerships that Hill Samuel is building up in EC countries in order to provide cross-border mergers and *acquisitions services in the* integrated European market.

Siparex, and its financial engineering arm Ingefi, were established by a number of leading French companies including Michelin and Rhône-Poulenc, to provide development capital services in France.

Mr David Longridge, a Hill Samuel director, said his company had decided that the best way to approach the integrated *market was by setting up* exclusive arrangements with independent corporate finance houses on the Continent that had *similar motivation* and culture.

They would not only work with Hill Samuel, but also with each other, thus making a Continental network.

Hill Samuel has established partnerships or joint ventures with houses in Belgium, West Germany, Italy and now *France. It is also* examining possible links in Spain and the Netherlands.

Two City law firms to merge

CAMERON MARKBY, a medium-sized firm of City lawyers, is to merge on May 1 with 15-partner Hewitt Woollacott & Chown. Hewitt is a specialist insurance litigation firm acting mainly in the Lloyd's market. The new 65-partner firm to be known as Cameron Markby Hewitt.

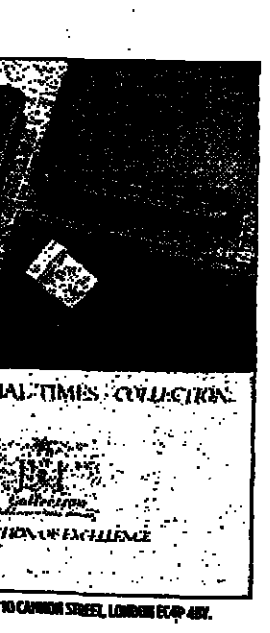
Lord Crook dies

LORD CROOK, a former UK delegate to the United Nations and for many years the chairman of the National Dock Labour Board, has died aged 88.

Baron Crook of Carshalton was also vice president of the UN's Administrative Tribunal from 1952-67.

He was a top civil servant who for more than 25 years was the general secretary of the Ministry of Labour Staff Association.

He sat on numerous government committees, including one set up to advise on the registration of opticians and one on police pay.



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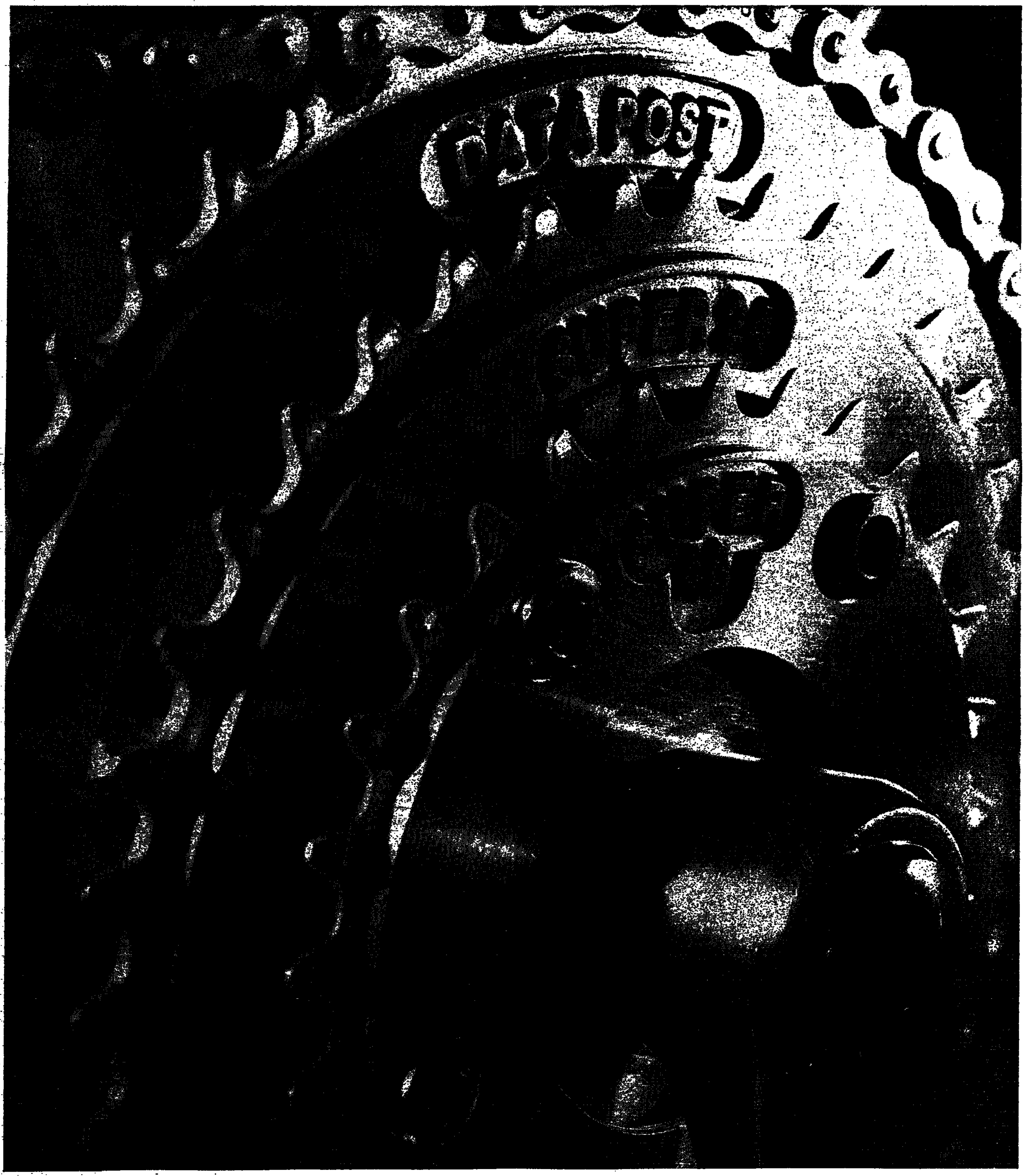

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UK NEWS

Parkinson backs CEGB in tax relief battle

By Max Wilkinson, Resources Editor

MR CECIL PARKINSON, the Energy Secretary, has come to the aid of the Central Electricity Generating Board in its battle to persuade the Treasury to grant it tax relief on provisions for decommissioning nuclear power stations.

The CEGB recently warned the Department of Energy that, after privatisation, the board's after-tax profits might be reduced to zero if it were not granted relief on the nuclear provisions.

The Treasury, however, has argued that relief against corporation tax may be given only for a highly specific future liability, and not for a general set-aside. However, the provisions the nuclear power industry must make for the dismantling of old plant are still highly uncertain.

Many engineers believe the plant should be walled in concrete for a century or so to allow radioactivity in the centre of the reactor to decay to a more manageable level.

Others believe that solution would be unacceptable to the public and that improved robotic techniques will make it possible to dismantle old nuclear plant at a much earlier date.

After privatisation, National Power, the company that inherits the nuclear plant, will be able to pass all agreed nuclear costs directly to the consumer.

The Treasury has therefore been able to argue that the company's profits would not be hurt provided the special nuclear levy is adjusted to reflect the full decommissioning cost.

However, Lord Marshall, chairman of the CEGB, who will become chairman of National Power, is anxious to ensure that nuclear stations are seen to be as competitive as possible with coal-fired plant after privatisation.

The question of tax relief for the financial provisions for nuclear decommissioning was raised with the Treasury some time ago. While the CEGB remained in the public sector, however, the issue was merely whether the Treasury should receive its money in taxes or through increased profits.

Cecil Parkinson: seeking to avoid precedent

After privatisation, the question is whether the money should be returned to taxpayers or retained by shareholders – although higher potential profits would give the Treasury better proceeds from the sale.

Mr Parkinson has now asked the Treasury if it can find a way of exempting National Power from the tax bill without creating an undesired precedent for other industries.

Mr Parkinson also appears to have been trying to damp down the CEGB's fears that it might have to sign a blank cheque for the reprocessing of spent nuclear fuel by British Nuclear Fuels at Sellafield, Cumberland.

The board has been worried that the Government might insist on contracts that would transfer some of the high financial risk of nuclear reprocessing to National Power in order to make BNFL a candidate for privatisation.

However, although Mr Parkinson has been anxious to encourage BNFL to behave in the kind of way appropriate to the private sector, there appears to be little enthusiasm among senior ministers for the idea that nuclear reprocessing might be denationalised.

Tait gambles on a paper takeover

Maggie Urry on the Scottish company's move to secure its future

IN THE paper industry, people are not sure whether Thomas Tait, the Aberdeenshire paper company, and Mr Thomas Tait, its managing director, are canny Scots or over-optimistic gamblers.

Tait, a private company, last week agreed to be taken over by Federal Paper Board, a US pulp and paperboard group 10 times Tait's size. But does that necessarily mean that Tait's greatest gamble, the purchase of a big paper machine nearly five years ago, has failed?

Mr Tait's family history suggests a dynasty of remarkable capitalists. The family was a large landowner in the area around Inverurie, 15 miles north-west of Aberdeen.

Its first commercial venture was grinding oats for porridge and skirley, another sustaining Scottish dish. Then it became involved in building a canal from Inverurie to the Aberdeen docks to ship grain down to the boom towns of the industrial revolution.

In 1852 the railway arrived in Inverurie and the canal closed. However, the Tait family were compensated and with the cash entered the paper-making business, using rags as the raw material.

The company prospered. But paper making became an increasingly capital-intensive business, requiring massive investments.

In 1984 Tait took a dramatic step. It bought a paper machine so large that it more than trebled the company's annual capacity from 40,000 to 125,000 tonnes of uncoated paper, used for photocopying, printing and writing paper, as well as for making envelopes.

The machine, capable of producing 90,000 tonnes a year and the building to house it, cost Tait £25m – equal to the group's annual turnover at the time.

The gamble was to take Tait into the big league of paper makers, pitting it against the leading players in a global market, at the mercy of interest rates, exchange rates, pulp and paper prices.

The paper industry is notoriously cyclical. The large investment needed for each new machine means that manufacturers seek to run them at full capacity, sometimes preferring to cut prices rather than production. Each machine adds significantly to available capacity and the long lead times in building them often means that capacity comes on stream just as the market weakens.

Tait's investment was big for the size of the company. But it might not have made it at all had it not bought the machine on the cheap.

Voith, the West German maker, had built it for the Shah of Iran. However, after the revolution, the machine was no longer wanted and it was left in Germany, languishing in its packing crates. It fell into the hands of Hermes, the German credit insurance company, which had covered the credit risk on the sale.

Hermes eventually sold it to Tait, although others in the industry were also approached. One rival paper industry executive says: "They offered it to all of us. None of us wanted it." Only Tait was ready to take the chance.

Financing for the deal meant taking on debt and issuing equity, with the Tait family losing majority control.

The machine began producing in June 1986. Production was built up slowly so as not to flood the market. In 1989 the company is budgeting to make 105,000 tonnes.

On one level, at least, Tait made the right decision. The market for uncoated paper has remained firm ever since, with volumes rising by about 5 per cent in 1988. Tait's UK sales rose by 14¼ per cent in 1988.

However, the trend in prices since Tait's machine started has not been so encouraging. Almost as soon as it began production, sterling's five-year decline against the D-Mark started to reverse.

British paper makers will find it hard to forget the early part of the 1980s, when the strong pound almost destroyed the industry. Exporting was tough; imports poured in. The industry was saved when sterling fell from DM 5 in 1981 to under DM 3 by 1986. It has since risen to about DM 3.20.

Tait's high level of exports, about 35 per cent to 40 per cent of sales, means it has suffered. "The strong pound has been a disaster for all UK manufacturers," Mr Tait asserts. Worse, he says, in paper "UK prices tend to be higher than in Europe – that encourages imports too."

Another difficulty has been the sharp rise in the pulp price. Tait buys about 80,000 tonnes of pulp a year, and the price has risen from $320 (£186) to $790 a tonne over the last 3½ years. Not all of that increase has been passed on to Tait's customers.

Pulp accounts for about 75 per cent of the group's costs, so the squeeze on margins is formidable. When the 1988 figures are released, they will show that Tait has made a small loss on turnover of £53m.

Federal Paper is one of Tait's main pulp suppliers. The plan is that any further expansion in Tait's production will use Federal Paper's pulp, giving that company an important outlet and some protection when the inevitable downturn in pulp prices comes.

Tait's debt burden, which was not dissipated because of further substantial investment in machinery, means that the group is "fairly highly geared," according to Mr Tait. With high interest rates, that is another difficulty.

Mr Tait says: "We had been contemplating a refinancing to reduce gearing. But we decided the best way forward was to seek a commercial partner."

He refuses to say how much the company was sold for, although it is believed that Tait will not have made a loss on its investment in the new machine.

In that sense, Tait's gamble has not failed, although it has not perhaps paid off yet. Mr Tait is keen to expand again, with the help of his new parent, seeking to raise capacity to 200,000 tonnes in five years.

In selling to Federal Paper he admits to "a tinge of sadness about the family connection," but adds: "In a 100 years' time historians will say it was a good, bold move and the right thing to have done."

Water meters for homes

ALL NEW homes in the 4,000 square miles covered by Southern Water are to be fitted with water meters from next month.

The authority will fit the meters in small chambers close to the footpath of new houses and flats.

Customers will pay for the volume of water they use, rather than being charged an amount based on their property's rateable value.

Southern Water said yesterday that, so far, only 2,000 domestic customers had opted to have meters installed, but the policy of providing meters for new homes was likely to increase that figure by 12,000 customers a year.

Figures for domestic rateable values will no longer be given after next year, and water authorities will not be allowed to use them to calculate charges after the year 2000.

New, non-domestic properties already have to be metered and in the next five years Southern Water says it will be metering the remaining 19,000 non-domestic customers.

Replacement for PVC launched by Lin Pac

By Maggie Urry

LIN PAC Plastics has launched a range of clear packaging made from oriented polystyrene – the first company in the UK to do so. It is being marketed under the name Vistapac.

The company, part of the privately owned Lin Pac packaging group, believes OPS has many advantages over polyvinyl chloride, the usual plastic used for clear packaging, and is competitively priced. Although the OPS raw material is more expensive per tonne than PVC, it can be made much thinner.

OPS allows 92 per cent of light through, so that consumers see the product, an important consideration for marketing. It is rigid but not brittle and does not break into shards.

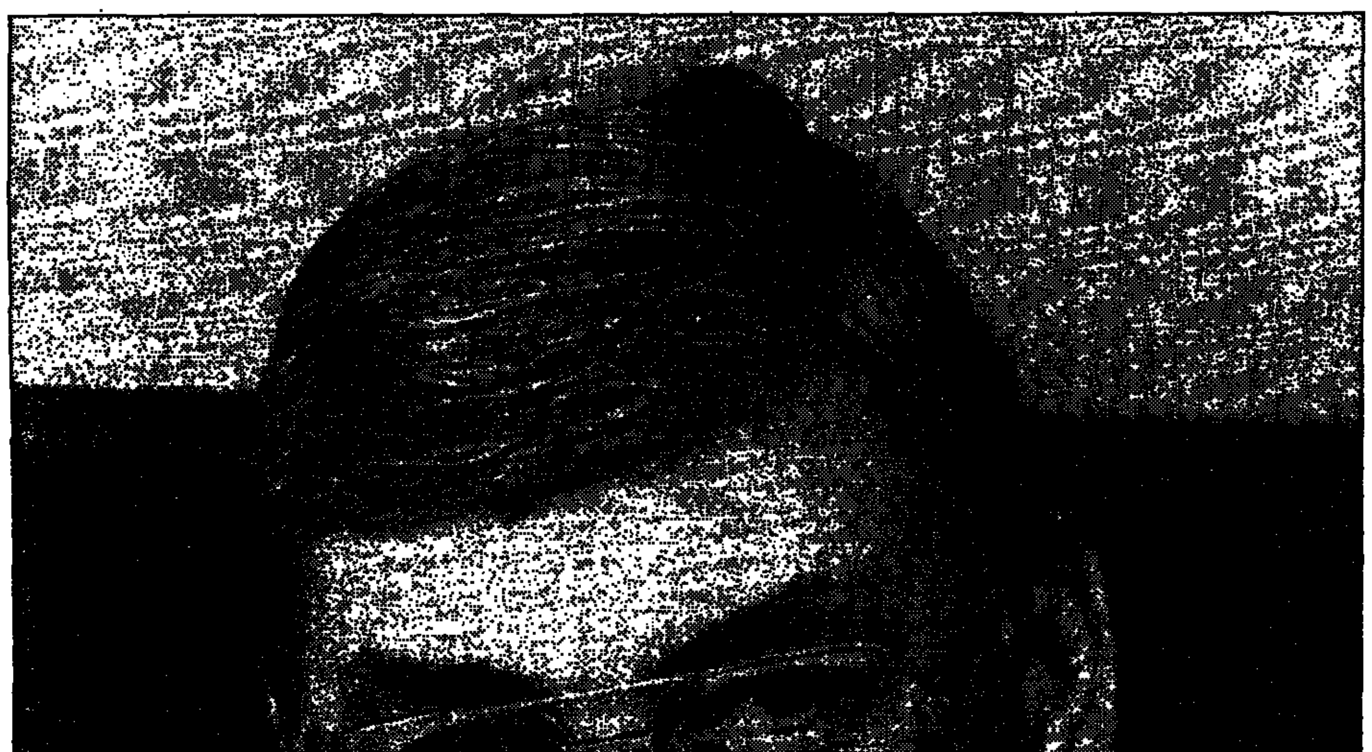
Vistapac's uses are mainly in food packaging, such as salads, produce, meat, cakes and biscuits, and it is already being used by McDonald's, the fast food chain, for packaging doughnuts. It has been approved by the US Food and Drug Administration as safe in direct contact with food.

Lin Pac Plastics estimates that the European market for thin-walled plastic packaging runs to 20bn units a year. It believes OPS will capture 40 to 45 per cent of the market over the next five years. Other manufacturers are expected to start production this year.

Lin Pac Plastics also claims that OPS is more environmentally friendly than PVC. When incinerated, OPS emits no toxic gases. Lin Pac Plastics also makes foam plastic packaging, such as burger boxes for McDonald's, egg boxes and meat trays. It replaced chlorofluorocarbons (CFCs), which are said to damage the earth's ozone layer, using pentane as the blowing agent.

The group opened a new factory on its Featherstone, West Yorkshire, site to make the Vistapac range in January, where it has room to treble production.

Lin Pac Plastics has 17 plants, including operations in France, West Germany, Spain and the US. Lin Pac as a whole has 68 plants and generates annual turnover of more than £500m.



"I think it is right above all because it will put the responsibility where it belongs – with the employer at a local level."

APPOINTMENTS

Joining Unilever boards

■ Mr A. Kemner, a senior executive in UNILEVER's food and drinks co-ordination, will be nominated as a director of Unilever NV and Unilever plc at the annual meetings on May 3. He joined the group in 1966.

■ Mr Steven Horner has joined HIGHCROSS, Newbury, as financial director.

■ Dr R.S. Dowdell has been appointed technical director of GEEVOR.

■ Mr Bryan Cassidy, MEP for Dorset East and Hampshire West, has been appointed a director of Bournemouth-based independent local radio station, 2CR.

Mr Jack Semourson (above) has been appointed managing director of PORTAKABIN, York. He was manufacturing director.

■ NORTHERN STOCKBROKERS has promoted Mr Simon Tweedale to the board.

■ Mr W.J. (Hamish) Preston has been appointed a non-executive director of ARUNDELL HOUSE.

■ Mr Richard Zucker has joined the board of IMAGINATION.

■ Mr Raj Nadarajah has been appointed to the board of CHELGATE.

■ Mr Charles Congdon has been appointed investment liaison and marketing manager of HENDERSON PENSION FUND MANAGEMENT.

■ Mr Terry Garthwaite has been appointed group financial director of SENIOR ENGINEERING GROUP from April 3. He joins from Fosceo Minsep, where he was director corporate finance, and succeeds Mr M.W. Westcott who is leaving the group for personal reasons.

■ GIL, CARVAJAL & PARTNERS, insurance brokers, which is majority owned by Gil y Carvajal, Spain, with Hogg Robinson & Gardner Mountain, has appointed Mr Paul Coleman as a director; Mr Stephen Hankey, Mr Keith Loe, Mr Adam Mckay and Mrs Glenys Williams as associate directors; and Miss Christine Vann as office manager.

■ Mr Bob Holt has been appointed a director and group chief executive of TOTTENHAM HOTSPUR.

■ Mr David I. Liddell-Grainger and Mr Stephen E. Neiman have joined the board of RSJ AVIATION INTERNATIONAL.

■ THE GLEN DIMPLEX GROUP has appointed Mr J.W. Cadman as managing director and chief executive of Morphy Richards from April 1. He was sales and marketing director.

■ THE PA CONSULTING GROUP has appointed Mr Ken Edmonds as marketing director of the operational services division. He was with Coopers & Lybrand.

■ SIEGAL & GALE has appointed Mr David Best as marketing director, Europe. He was marketing director of MoDo Paper.

■ CARTIER has appointed Mr Philippe Leopold-Metzger as managing director for the UK from April 3. He was president of Cartier Canada.

■ Mr Barry Sharp has been appointed marketing director of ASSOCIATED VISUAL PRODUCTS. He was marketing director of Bisley.

■ TSB ENGLAND & WALES has appointed Mr David Gibson as general manager - finance from May 1. He is finance and deputy managing director of TSB Channel Islands.

■ Mr J.H. Bowman, senior partner of Price Waterhouse, has joined the CITY CAPITAL MARKETS COMMITTEE.

Power industry extends trials of imported coal

By Maurice Samuelson

THE ELECTRICITY industry is extending imported-coal trials as a prelude to privatisation of power stations.

Two shipments of Soviet coal, totalling 12,000 tonnes, were delivered to Staythorpe and High Marnham power stations, in the heart of the Nottinghamshire coalfield, after being landed at Immingham, on the River Humber.

In South Wales, 30,000 tonnes of US coal have been ordered for Aberthaw power station, which usually relies exclusively on local collieries.

The Central Electricity Generating Board is also calculating the cost of moving imported coal to all its inland power stations by rail or road from the coasts.

British Coal and mining unions see the trials as portents of the damage the coal industry would suffer from a big switch to foreign coal or oil in UK power stations.

Last night Mr Malcolm Edwards, British Coal commercial director, said that if River Trent power stations used foreign coal, the corporation would have no option but to shut pits manned by the Union of Democratic Mineworkers, the moderate union.

Today, at a meeting in London, Sir Robert Haslam, British Coal chairman, is expected to say that closure of efficient capacity, as distinct from uneconomic pits, would be political folly and would reduce energy self-sufficiency.

Electricity officials, confirming the Soviet and US coal deliveries, say they are part of their effort to become informed buyers on the world coal market as they prepare to bargain with British Coal on deliveries to privatised power stations.

Annually more than 70m tonnes of coal, 95 per cent of power stations' consumption, come from UK collieries. British coal costs on average £46 a tonne; foreign coal is landed in the Thames estuary at about £25 a tonne.

Electricity officials say that indicates an unnecessary burden on the CEGB's fuel bill of more than £500m a year. Coal industry officials say a growing part of UK coal is sold at world prices and any big foreign purchases would immediately close the gap in price between foreign coal and that of British Coal.

They question the reliability of supply of coal from distant fields compared with supply from pits near power stations.

The latest Soviet deliveries are believed to have been shipped via Tallinn, in Estonia, after being moved about 1,000 miles from mines in the Donets coal basin.

Mr Roy Lynk, UDM president, who has accused the electricity industry of gross betrayal of his union, plans to raise the issue today at a meeting of the European Coal and Steel Community consultative committee in Toulouse. He will claim that the CEGB has infringed European Community rules.

Parkinson backs CEGB in tax-relief battle, Page 12

Plessey to renew quest for control of GPT

By Raymond Hughes, Law Courts Correspondent

PLESSEY will today renew in the Court of Appeal its attempt to get complete control of GPT, the telecommunications company it owns jointly with GEC.

Last month the High Court granted GEC a declaration that Plessey was not entitled to exercise an option in the GPT agreement compulsorily to buy out GEC's 50 per cent interest.

Plessey will ask the court to overturn that decision.

It argues that its option right arose from last November's agreement between GEC and Siemens, of West Germany, to bid for Plessey.

GEC accepted obligations to Siemens in relation to a proposed restructuring of GPT after a successful takeover which, Plessey claims, breached the GPT joint venture agreement and entitled it to exercise the option.

In the High Court Mr Justice Morritt agreed with GEC that the obligations did not exist until the bid became, or could be declared, unconditional.

When the bid was referred to the Monopolies and Mergers Commission on January 12, the offer lapsed and all the material provisions of the bid agreement ceased to have effect, the judge said.

He added that, had he not decided the matter on the basis of the conditional nature of the obligations, he would have held in Plessey's favour that the obligation accepted by GEC to vote its GPT shares in favour of an enlargement of GPT's capital involved GEC dealing in GPT shares in breach of the agreement with Plessey.

That agreement permits one party compulsorily to purchase the other's shares in any one of a number of "relevant events," one of which is breach of a restriction on dealing in GPT shares.

GPT was formed last March when GEC and Plessey agreed to merge their telecommunications interests and is valued at about £1.8bn. It constitutes most of the UK's telecommunications manufacturing capacity.

Attacks may signal end of the line

Kieran Cooke on the IRA threat to the Dublin-Belfast rail link

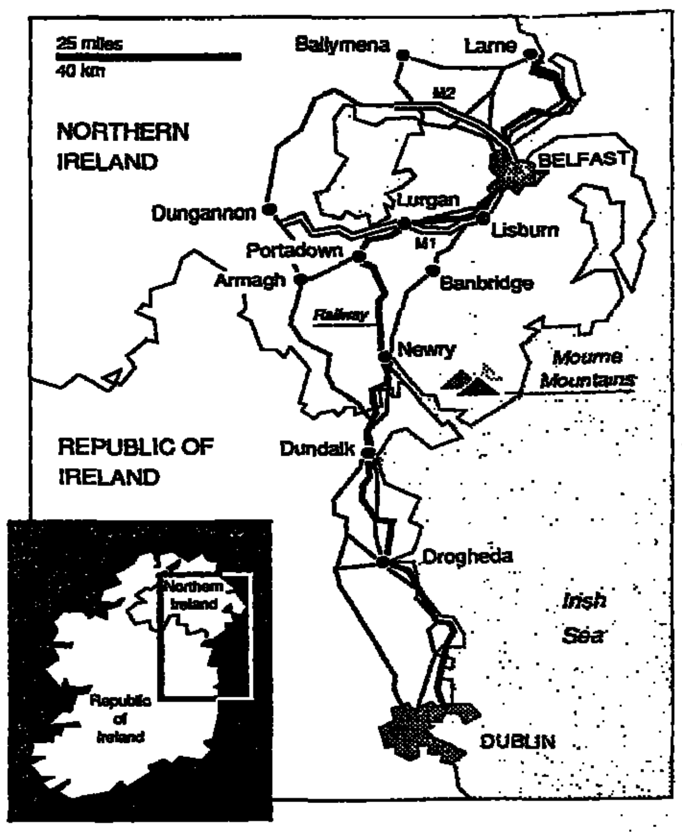
THE Dublin-Belfast express train pulls out of Connolly Station, Dublin, at 8am each day. It is a beautiful ride, running along the coast and passing by where the Mountains of Mourne sweep down to the sea. There is time to have a heart-stopping fried breakfast and read the papers before arriving in Belfast just after 10am.

But these days what used to be a peaceful, relaxed journey is fraught with difficulties and dangers. The IRA seems intent on closing down the Dublin-Belfast rail link.

Since mid-December, eight bombs have been placed on the line and five of them detonated. A bomb explosion at the beginning of February caused a section of the line north of the border to be closed for three weeks. Services have only been intermittent since a bomb placed on a railway viaduct near the town of Newry a fortnight ago exploded minutes before the arrival of a Belfast-bound train.

Mr Richard Needham, the Northern Ireland Minister responsible for Transport, said he was horrified by the thought of what might have happened. "There were 70 people on the train and it is nothing short of a miracle that we are not dealing with multiple deaths and injuries," he said.

The IRA espouses the cause of a united Ireland. At the same time it is doing its best to sever one of the few links between the Irish Republic and Northern Ireland. Part of IRA tactics is clearly to tempt the British Army into the open. The army is very cautious about moving in to deal with the rail bombs. Several booby traps have been found near the railway line.



The Dublin-Belfast rail link is jointly operated by Northern Ireland Railways and Iarnrod Eireann, the Irish rail service. The rail bombing campaign has caused severe losses to both organisations. NIR says it has lost about 75 per cent of its first-class passenger business and more than 30 per cent of other passengers since the beginning of February. Manufacturers have been sending increasing amounts of cross-border freight by road rather than risk stoppages and delay on the railway line.

NIR said that on both sides of the border there was a commitment to keep the line open. A £50m investment programme to improve services is being drawn up.

Others, however, fear that if the attacks continue the line might be closed down.

Mr Ken Maginnis MP, security spokesman for Northern Ireland's Official Unionist Party, says security operations in the South Armagh area – where most of the bombings take place – must be stepped up. "It is time there was proper covert surveillance carried out and, if the intelligence or information is adequate, that we have an SAS operation to deal with these people who endanger life," he says.

Mr Seamus Mallon, deputy leader of the mainly Roman Catholic Social, Democratic and Labour Party, says deploying the SAS would only lead to a renewal of a "shoot-to-kill" policy. In the past the IRA has managed to stop other cross-border links.

In the 70s an electricity inter-connector linking areas north and south of the border had to be permanently shut down after a prolonged IRA bombing campaign. Plans for a gas pipeline linking Northern Ireland with gas fields in the south of the Irish Republic were shelved because of fears of IRA attacks. If the worst happens and the rail link shuts down, it will make life for many cross-border travellers all the more difficult.

The Dublin-Belfast road journey is a tortuous one: roads south of the border are grossly inadequate and on weekdays they are clogged with container traffic heading to and from the port of Larne, north of Belfast. The rail lines closure would also put an end to one of the most scenic railway rides in Europe.

Shares scheme proposed for Lloyd's insurance syndicates

By Nick Bunker

A RADICAL scheme allowing investors to buy, sell and lease shares in insurance syndicates at Lloyd's of London is proposed today in a paper published by the Institute of Economic Affairs, the free-market think tank.

The scheme would abolish what its author Mr Robert Miller says are restrictive practices preventing many of the 31,000 members of Lloyd's ("Names") from gaining access to a wide range of syndicates.

Like company securities, shares in all Lloyd's syndicates could be freely bought and sold on a computerised trading system, based on the electronic network now under development at Lloyd's.

The share prices would reflect expected results from each syndicate, stimulating analytical research into their performance and placing outsiders on an equal footing with insurance professionals at Lloyd's.

The system would make it much easier for Names to drop out of a severely loss-making syndicate.

"They would be able to make a clean break, rather than suffer the lingering losses and worry that is the lot of Names now," says Mr Miller, an economic consultant.

Lloyd's underwriting agents would act as brokers, charging a commission on share transactions. There could also be a market in options to buy or sell places on syndicates.

Mr Miller's paper is the most innovative of a series of proposals for enabling Names to spread their risks more effectively by constructing balanced insurance portfolios.

Mr Anthony Cooper, of the Wellington Underwriting Agencies, and from Mr Colin Murray, of the R. J. Kiln group, have proposed unit trusts of shares of syndicates.

However, Mr Miller's proposal is the first application to Lloyd's of Modern Portfolio Theory. MPT started life in the 1950s in the work of a US academic, Dr Harry Markowitz, and uses complex mathematics to help investors to construct diversified portfolios of stock market securities so as to maximise the expected rewards consistently with their individual willingness to bear risk.

According to Mr Miller, a real obstacle now is that Names have access only to syndicates with which their agent has established connections.

Consequently, some investors have suffered far heavier losses than necessary.

A Market for Access to Lloyd's Syndicates? IEA Inquiry 7, free, from IEA 2, Lord North Street, London SW1P 3LB. 01-799 3745.

Welsh solicitors open financial centre

By Anthony Moreton, Welsh Correspondent

PHILLIPS and Buck, the largest firm of solicitors in Wales, has set up a banking centre in Cardiff to handle the rapidly growing financial services sector in the Welsh capital.

The firm is now handling a third more work in the area than a year ago for banks, finance houses, investment companies and insurers.

Mr Kevin Doolan, the partner heading the centre, said the intention was to provide a specialist department for financial work in Cardiff.

The firm opened a London branch two years ago and that office is now transferring some of its back-office banking work to Cardiff.

Mr Doolan said: "Clients prefer to have the whole range of legal services available in one department and this move caters for their needs." Some 70 of the firm's 250 staff have been brought together in its banking centre.

The London office is to be consolidated within the Evershed group of legal firms later this year when the combined practices will have a staff of about 40 in the City.

Evershed is one of a loose grouping of legal firms that have pooled resources outside London. It brings together Evershed and Tomkinson in Birmingham, Daynes Hill & Perks, of Norwich, Alexander Tatham, of Manchester, and Dibb Lupton Broomhead, of Leeds and Sheffield, as well as Phillips and Buck.

The Cardiff banking centre is "the legal dimension of the financial services initiative launched in south east Wales by Mr Peter Walker, Secretary of State," Mr Doolan said.

He continued: "The financial sector in Wales is showing a very healthy pace of growth and City institutions are increasingly ready to have their legal work undertaken in Cardiff."

CONSTRUCTION CONTRACTS

Housing market better than expected

By Andrew Taylor, Construction Correspondent

HOUSEBUILDERS have not been as badly affected by higher mortgage interest rates as feared. There has been steady traffic through the showrooms and sales have been holding up much better than expected, according to housebuilders which have announced a string of sparkling company results recently.

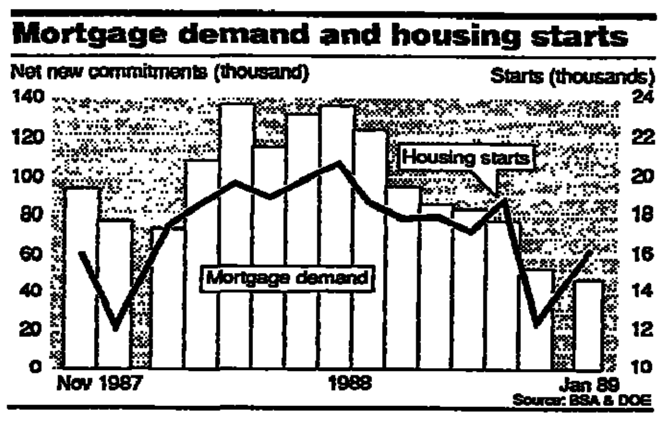
Mr Duncan Davidson, chairman of Persimmon, which last week announced that pretax profits had more than doubled last year to £29.5m, said house sales during the first two months of this year were about 20 per cent higher than in January and February last year.

Sales and house prices, he said, had remained relatively bouyant in the north and Scotland, while the group had been assisted by its low exposure to south east England where sales were more depressed.

Mr Geoffrey Ball, chairman of Cala, the Edinburgh-based housebuilders which builds two thirds of its houses outside Scotland, said house sales were higher than at this stage last year, but he remained concerned about the rest of the year.

"We have seen a lot of traffic going through the show houses since the beginning of the year. The difficulty will be in translating increases in reservations into actual sales, given the equally high rate of cancellations in the industry," said Mr Ball.

Mortgage demand and housing starts



Cala said that pretax profits in the six months to December 31 had risen £1.55m to £3.6m. It warned shareholders, however, that first half profits would contribute a larger proportion of full year profits than usual.

The comments by Persimmon and Cala were in line with what other housebuilders, announcing results in the last few weeks, have been saying.

Demand has remained surprisingly strong and there has been a good level of reservations, although the number of buyers dropping out of purchases has risen, because of problems selling their existing homes.

One of the reasons sales of new houses has been performing better than sales of existing homes, has been the willingness of many developers to offer part-exchange deals to release housing chains.

Builders since last autumn have been offering mortgage subsidies on their more difficult sites in a bid to maintain output.

Estate agents in a survey recently complained that housebuilders, by offering financial incentives and part-exchange deals, were taking a bigger share of the first time buyers market.

New house sales account for only about 10 per cent of all house sales. Builders this year have also been selling much further forward, which has helped boost sales comparisons with the first two months of last year.

Figures published last week by the Environment Department showing how many homes developers have started to build, confirm companies' views that the new housing market has been more resilient than might have been expected.

In the three months to the end of January builders started 47,400 homes compared with 44,400 in the corresponding three months a year earlier.

Builders, after making allowance for seasonal variations, started work on 19 per cent more houses and flats than during the previous three months

In January they started work on 16,100 homes compared with 15,600 in January last year. Yet building societies in the same month announced that the number of loans it had approved was the lowest January total since the early 1980s.

There have been reports of one or two companies unloading land, and some markets - around Cambridge for example - are having more problems than others. Most housebuilders, particularly those with operations outside the south east, are relatively pleased with the way the market has been holding up.

Expanding hospital facilities

The **FAIRCLOUGH/DRAKE & SCULL** joint venture has won a £24m contract for phase two of the Bournemouth General Hospital project.

The scheme will add another 25,000 sq metres (for nearly 400 beds) plus facilities to the Wessex Regional Health Authority's nucleus hospital.

The latest phase entails erection and fitting out several one, two and three-storey buildings, with plant rooms above, to provide acute and elderly persons wards, a maternity unit, out-patients and rehabilitation departments, and a pathology unit.

The joint venture will also undertake extensions to other departments, among them the operating theatre and radio-diagnostic units, and the hospital administration centre.

The buildings generally will be in concrete, with external cladding panels, curtain walling and pitched roofs.

Hollow flooring and suspended ceilings will be incorporated in X-ray and clinical areas.

The project is scheduled for completion in late 1992.

★

TURRIFF CONSTRUCTION, Warwick, has been awarded two contracts worth a total of £7.2m for construction of a 20,000 sq ft office development adjacent to a new 197 bedroom hotel at Birmingham International Airport.

Tesco superstore in Dunstable

KYLE STEWART has been awarded contracts totalling over £35m. Work has started on a £9.4m order for a superstore for Tesco in Dunstable, Bedfordshire. The 65,000 sq ft gross, single-storey building will have a mezzanine floor for offices. The site includes a filling station and parking for 645 cars. A feature will be mature trees included in the landscaping. Completion is due in September. A technical services centre is to be built for Tesco at Cheshunt, Hertfordshire, under a £4.5m contract. The three-storey building will contain food laboratories, testing and tasting laboratories, and administration offices. Work starts in June to be completed in a year. Other orders include refurbished training facilities for IBM United Kingdom, including a new nine-storey block; and refurbishment of two telephone exchanges for British Telecom - Howland Street and Covent Garden.

Minet office expansion scheme

TROLLOPE & COLLS CONSTRUCTION has been awarded by Minet Properties the first stage of a £26m contract for an office at 63-66 Prescot Street, London E1. Comprising a basement and eight storeys, it will be linked to Minet's premises in Leman Street, but has been designed to operate independently. It will have set-backs at upper levels, circular towers, and projecting curved bays. Cladding will be precast concrete panels with reconstructed stone facing and double-glazed colour-coated aluminium curtain walling. The building will provide nearly 120,000 sq ft space. Work starts in October. Companies in the building and civil engineering division of Trafalgar House, including Trollope & Colls, Willett, and Cementation, have won contracts totalling over £28m (excluding the Minet building).

IN BRIEF....

£21m orders for Try

The **TRY GROUP** has started the year with new contracts totalling £21m. The largest, at £5.5m, is for the first phase of the Cowley Business Park at Uxbridge, Try's own headquarters site, which is being developed jointly with Trafalgar House Developments. The work involves establishing the park's infrastructure and construction of two office buildings, one of which will be occupied by the group.

★

MOWLEM INDUSTRIAL has won orders worth over £12m. The largest, worth £2.5m, is for 12,000 sq ft of factories with offices at Team Valley, Gateshead, for Enterprise Zone Developments.

★

GEOFFREY OSBORNE has been awarded contracts worth more than £8m. The largest is for BP Development at Holton Heath, Dorset, where Osborne Building are carrying out a £8m design and build contract to construct a two-storey office building, workshops, stores and a gatehouse. Completion is due in December 1990.

Since the start of the year the **ALLEN GROUP** has collected construction orders worth £20m. An office scheme in Stoke-on-Trent for the Midlands Electricity Board is the largest at £3.25m.

★

SIR ROBERT McALPINE & SONS has been awarded a £3.5m contract by Nuclear Fuels covering building completion work on the medium active solid waste encapsulation plant complex. Completion is scheduled for December, and the work covers three buildings.

★

Three contracts totalling £12m have been won by **NORWEST HOLST CONSTRUCTION**. At Haydock, Merseyside, the company is building the £5.7m Haydock Park Thistle Hotel, for Thistle Hotels. In Aylesbury the company is building a £4.2m retail warehouse development for CCL. In Bristol £2m substructure work at the Swallow Royal Hotel has been awarded by Sir Robert McAlpine Management Contractors.

★

Facilities reconstruction at Barnes Hospital, refurbishment of two blocks of flats in Islington, and Life Guards Barracks refurbishment in Windsor total £6.4m orders won by the construction division of **EVE GROUP**.

★

WILMOTT DIXON companies have started work on projects worth almost £9m. The largest is an extension to the Sealink terminal building at Harwich, with refurbishment work to Parkeston Quay, in a £2m scheme for Sealink UK.

★

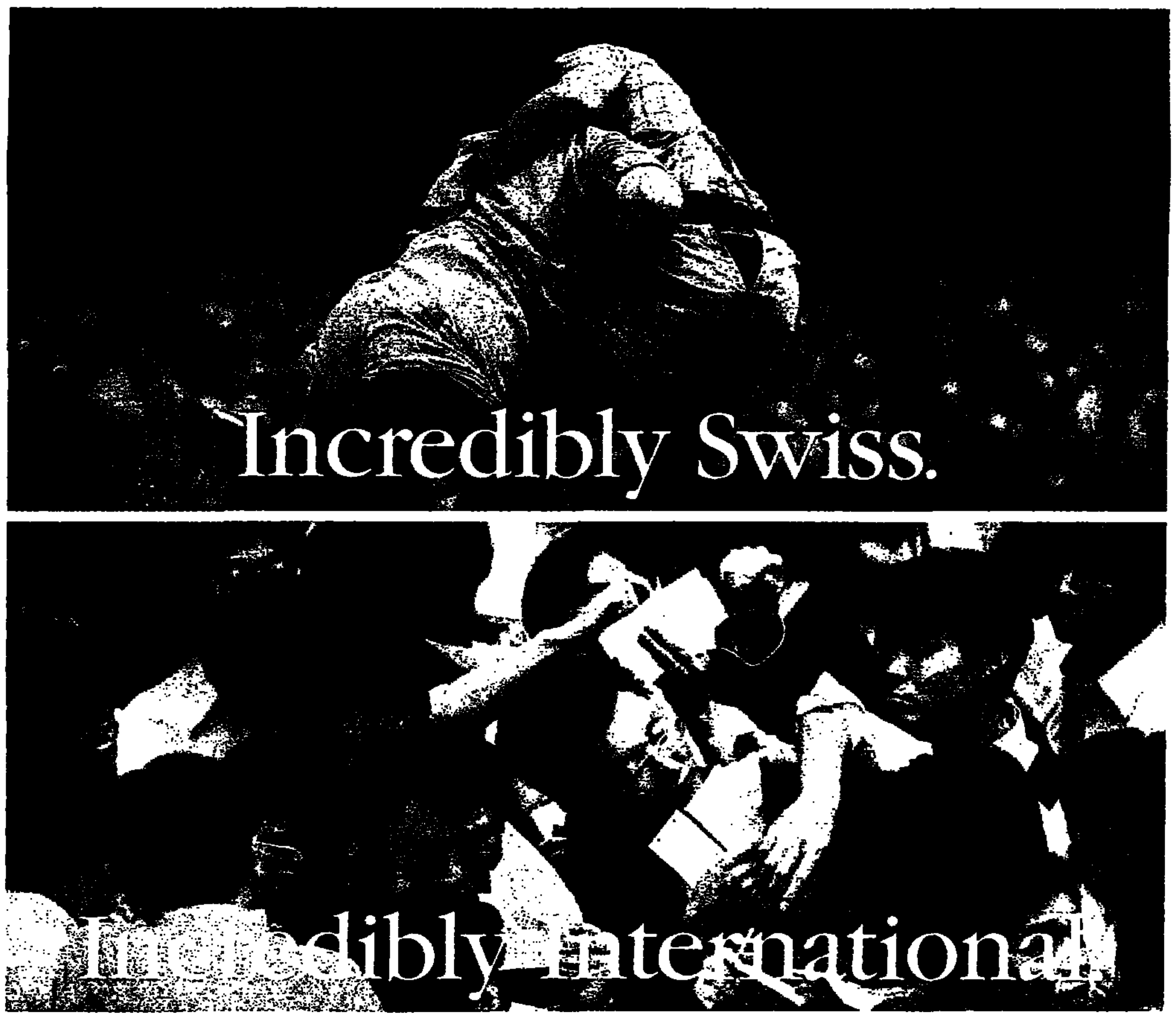
An extension to the Bank of Scotland computer centre at Sighthill; 57 flats in Argyle Street, Glasgow, for the Philemon Houseing Association; and 39 flats in Livingston for the Development Corporation, form a major part of £10m orders received by **BARRY D. TRENTHAM**.

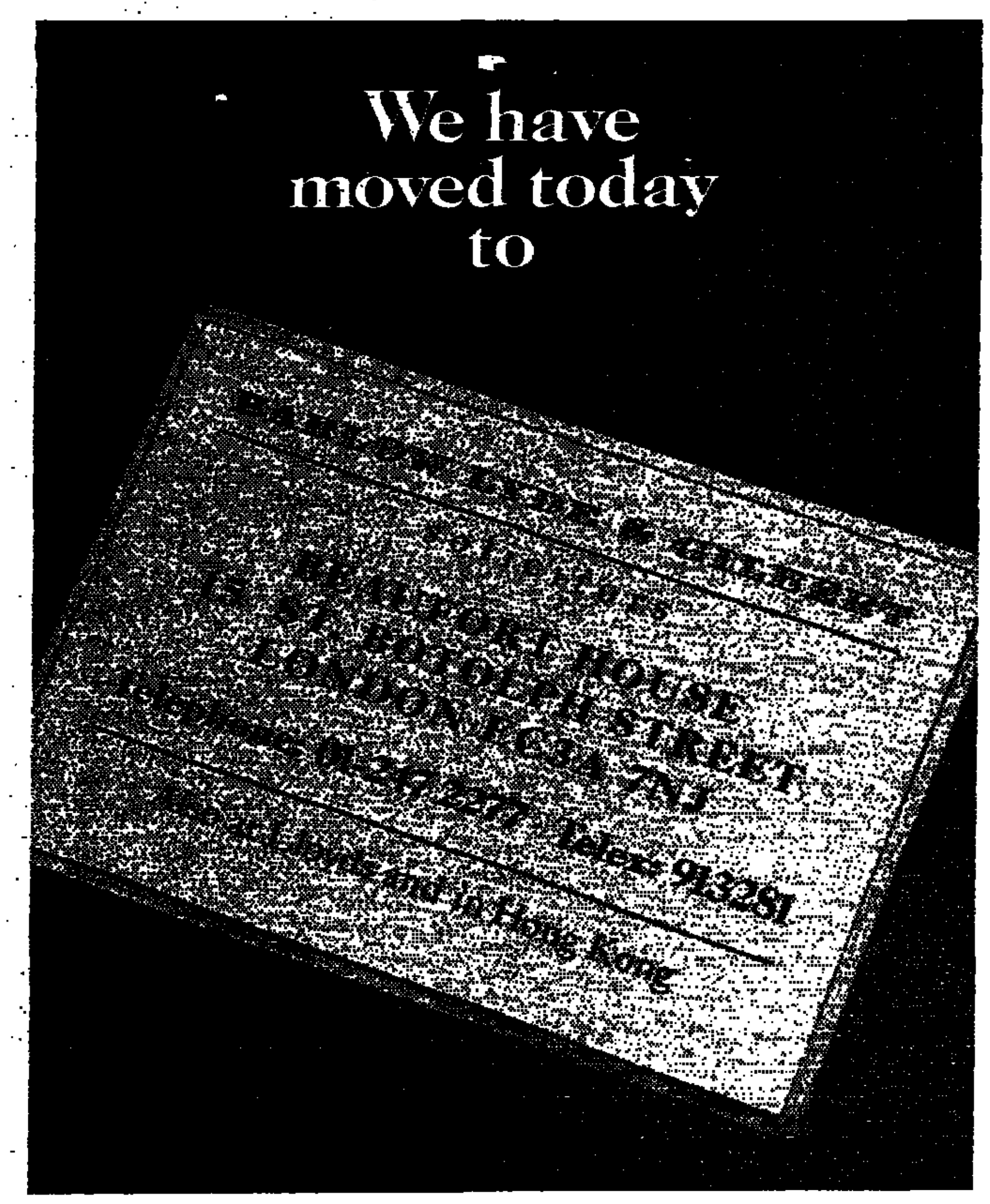
★

McLAUGHLIN & HARVEY has secured £14.5m worth of construction contracts. The largest project is a development of five-storey offices, retail and residential buildings at 112/120 Brompton Road, London, worth £8.4m, for Hightown Holdings.

★

Extensions to the Halifax Building Society HQ and Dewsbury College of Art are among £4.5m worth of contracts won by **LAING YORKSHIRE**.





MANAGEMENT

Pan-European tax rates

Chaos more likely than harmony

Richard Waters argues that a lack of uniformity after 1992 offers companies great opportunities

The harmonisation of taxes within the European Community is years away. The battle over indirect taxes has been heated, but is likely to fade into insignificance in the years ahead as the battleground moves to corporate taxes and, eventually, personal taxes.

Looked at in one way, this presents one of the best tax-planning opportunities that most companies will ever witness. If the internal market programme succeeds in freeing up the movement of goods, services, capital and people, then there will be considerable scope for tax "arbitrage" – using differences in national tax systems to your advantage.

Looked at from another point of view, uncertainty over what will happen over the next ten years makes any form of business planning extremely difficult.

Alan Reid, an international tax partner at Peat Marwick McLintock, predicts fiscal chaos. "We are moving into such an area of uncertainty that many traditional tax planning techniques are out-dated. It will make tax planning, and even sensible business planning, difficult over the next ten years."

The sort of strategic tax planning techniques now being used in European business planning are not new; they have been at the heart of international tax advice for years. But they are being given a new lease of life by the changes in business practice caused by the internal market programme.

If successful, the internal market will greatly encourage cross-border trade within the Community. This should have a major impact on corporate operations and structure; the need to be located in particular countries will diminish as it becomes easier to sell into them from outside.

Also, more companies are looking at their operations from a broader view. Rather than having functions duplicated in each country, there is a tendency to bring functions together into Community-wide operations: a single manufacturing plant, for instance, or a single marketing and distribution operation to service the entire European operation.

These structural changes create a number of tax opportunities.

The first and most obvious is the question of location. Where to put the factory or head office is a question driven mainly by factors other than tax. A skilled labour force and good communications are essential, for instance, and no amount of tax inducement can make up for a lack of these.

Language and cultural factors are equally vital.

Beyond these considerations, tax and other financial incentives come into their own. Relative tax rates, both on companies and individuals, are the most obvious influence.

All things being equal (and the internal market is an attempt to make sure that they are), companies in low-tax countries will have a competitive advantage over those in high-tax ones.

This has already begun to sink in around Europe; both West Germany and the Netherlands, in announcing plans to reduce corporate tax rates recently, have cited international competition as a prime factor in their choice.

It is hard to see where this downward pressure on tax rates will end. Countries like the UK, wishing to maintain their own tax attractions, may well push their own rates lower, sparking further rounds of tax cutting.

There is little chance of the European Commission stepping in to end this spiral. An earlier EC proposal, to bring corporation tax rates into rough alignment at 45-55 per cent, is already looking out of date. A range of 35-45 per cent may be more realistic now, though may be outmoded soon.

The competition on rates is obviously good for business, but it also creates considerable difficulty. How do you plan long or medium-term investment when there is no stability in the likely after-tax return?

Wherever possible, companies should build flexibility into their business plans to allow them to adjust to changing circumstances, says Reid.

These considerations hold true of personal as well as corporate taxes. People-intensive parts of businesses, like head offices or marketing and distribution divisions, are particularly aware of personal tax rates.

This is mainly true of companies which employ foreign nationals; most seek at least to maintain the standard of living its employees would have at home, and so meet the cost of the employees' extra tax if this is higher than at home.

US companies are a prime example. Before last year's UK budget, US employers complained that it cost them three times as much to employ a US national in London as it did in the States, largely due to the UK tax situation. With a third lopped off the top rate of income tax, they are now quiet on this subject – although proposals for changes in the way the UK taxes foreign nationals could stir up complaints again.

In addition to rates are the tax incentives designed to attract internationally mobile business. The most obvious of these are the Irish Republic's 10 per cent tax on manufacturing operations and Belgium's inducements for "co-ordination centres", or head office operations; but there are many other incentives to encourage investment throughout the Community.

There are also other, less visible tax incentives. According to one tax adviser, it is possible to achieve the same (or even better) terms for a co-ordination centre in the UK as are available in Belgium. But because the UK's rules are a matter of negotiation rather than prescription, the incentive is not as widely noted.

Locating the various functions of a business in different countries raises a vital question: how do you split the profits of the whole operation between its constituent parts? It is in a taxpayer's interest to report most of the profit in low-tax areas. Tax authorities may well contest this.

The process of fixing prices for transactions between groups is known as "transfer pricing". To taxmen, these are dirty words, suggesting tax evasion; to a company they suggest important planning opportunities

The process of fixing prices for transactions within groups is known as transfer pricing. To taxmen these are dirty words, suggesting tax evasion: to a company they suggest important planning opportunities. They are likely to become more familiar to many more businessmen operating around Europe in the years ahead.

The opportunities for companies lie in the fact that there is never one "correct" transfer price, but a range of possible prices all of which are commercially justifiable.

As Terry Symons, a transfer pricing specialist at Price Waterhouse, explains it, if anything between 20p and 30p is a fair commercial price for a sale between two group companies, then it is fair to pick the price best suiting the group.

Symons' advice is for directors to review transfer prices within their groups regularly (every three years) and to make sure there is adequate documentation justifying the prices picked. This could save considerable anguish in the event of any future challenge by the taxmen – and such challenges are likely to become far more frequent.

If fixing the price of tangible items is difficult, intangible ones present far greater scope for disagreement. The perception is growing – aided in the UK by the debate over "brand accounting" – that much of a company's value lies in its intangibles, like brands or research and development. By extension, the intangible element in transfer pricing is becoming more significant.

For instance, design and marketing has become a far more important element in many products. This means that more of the profit is "made" in the territory where the design or marketing work is carried out.

Attention to this area has been speeded up by a discussion paper produced by the US Internal Revenue Service last autumn on transfer pricing and intangibles. Like all major US tax moves, this one is likely to be picked up by other authorities around the world in due course.

It is therefore worthwhile locating valuable intangibles – like brands, marketing and distribution – in low-tax areas. The location of the manufacturing operation, which can be argued to contribute relatively little to profit, becomes less significant.

According to one expert, many tax authorities around Europe have little expertise in transfer pricing. "It's excellent news for professional tax advisers," he says.

However, expertise is likely to develop rapidly. And in some countries there is already considerable sophistication.

Besides considerations of location and transfer pricing, the most important issue for business planners is the financial structure of their various European operations.

The fact that interest charges are tax deductible while dividends are not is a major consideration in the financial structure of an overseas subsidiary. Left to their own devices, companies would gear up in high-tax areas and keep their equity in low-tax ones.

Tax authorities are aware of this practice of loading subsidiaries with debt, known as "thin capitalisation", and have responded accordingly by denying tax relief on interest costs in some cases.

Both the US and Australia operate a policy of challenging any subsidiary with a gearing of more than three to one. Things are less clear-cut in Europe. There is a degree of concern – the UK Inland Revenue this last year sought views on this subject, and its German counterpart has issued a number of discussion papers on thin capitalisation – but no hard and fast rules have yet been devised.

In the meantime, it is likely to pay companies to be cautious in the extent to which they gear up their subsidiaries.

Brian Hayes, an international tax planner at Coopers & Lybrand, reasons as follows. A financial structure of three parts debt to one part equity gives a company tax relief on 75 per cent of its financing costs. Four to one increases this proportion to 80 per cent, five to one to about 83 per cent, and so on. In other words, increasing gearing yields diminishing returns. Better to stick on gearing of three to one and avoid challenge from the tax authorities than increase it for little extra benefit.

There may be ways around the thin capitalisation problem in some countries. Take Germany, where banks receive tax relief on their investments in preference shares. This tax benefit can be passed on to the company which issues the shares, reducing its cost of finance. Since such shares count as equity, this arrangement helps to keep gearing down while securing an indirect tax advantage.

DIRECT CORPORATE TAX IN THE EC (%)

Principal rates	Belgium	Denmark	France	W.Germany	Greece	Ireland	Italy	Luxemburg	Netherlands	Spain	UK	Portugal
Federal	43	50	39*	35/56**	40/48	47†	36	34‡	35	35plus±	35	35
Local●	-	-	-	11/20	-	-	16	10	-	6/12	-	

●Local deductible from federal

*From Jan 1 1989; **36/50/46% from Jan 1 1990; †43% from April 1 1989; ‡From Jan 1 1990; ±10% surcharge

Source: CBI/Peat Marwick McLintock

Management abstracts

The six Rs of motivation. *W Marsh in Australian Accountant (Australia), Nov 88 (3 pages)*

And they are: review and plan with your staff, share responsibility, give adequate rewards (not just financial), recognise achievement, respect staff as individuals (they have a life outside their jobs), and report progress.

The shareholder gains from leveraged cash-outs. *R T Kleiman in Journal of Applied Corporate Finance (US), Spring 88 (8 pages)*

Explains what a leveraged cash-out (LCO) is – a defensive technique against hostile takeovers which involves a major recapitalisation providing existing shareholders with a large one-time payment in cash while allowing them to maintain a significant equity interest in the restructured company; compares an LCO to a leveraged buy-out and examines stock market reactions to the announcement of LCOs; concludes that LCOs lead to a greater convergence of interest between managers and shareholders, thereby increasing shareholder wealth.

Planning for the main chance. *D Allen in AA (UK), Dec 88 (1 page)*

Believes that the accelerating rate of change in the business environment has resulted in a shift in attitudes to planning – from determinism (the allocation of increased resources to traditional planning activities in order to reduce uncertainty) to opportunism (the management of uncertainty, a recognition that most decisions involve trade-offs, and the creation of flexibility). Gives examples of opportunism in – inter alia – range marketing and management development.

Intuition: what separates executives from managers. *S C Harper in Business Horizons (US), Sep/Oct 88 (7 pages)*

Asks what it is that makes major corporations pay their chief executive officers million-dollar salaries, four to five times the going rate for vice-presidents, 25 times the rate for a freshly minted graduate (who's probably affected by the "MBA syndrome": shunning the heat in the kitchen and finding a quiet staff job). Muses on the qualities top executives must possess, stresses the intangibility of things to be taken account of in deciding, not how to do business, but what business should be done, and the ability to draw from seemingly unrelated indicators the conclusions no computer could ever aspire to.

Adopting a long-term view: budgeting for charities. *J Irvine in Accountancy (UK), Dec 88 (2 pages)*

Questions Action Aid's financial director as to how the charity for Third World development runs its budgeting system; it has found that a small team of well-paid professionals works better and more economically than lowly paid volunteers. Notes that budgeted income is easily forecast from covenanted income but that expenditure is more difficult, involving currency hedging so that projects do not suffer from foreign exchange fluctuations.

The overseas assignment: a practical look. *M E Mendenhall & G Oddou in Business Horizons (US), Sep/Oct 88 (7 pages)*

Offers advice to the executive who, in mid-career, is offered an overseas assignment: should it be accepted or rejected? What enquiries should be made, what factors should be considered? Suggests finding out how much overseas experience is valued by the company: this can be done by ascertaining whether those currently in top management have experience of working overseas and if so, in which geographical areas.

The tyranny of teamness. *L English in Australian Accountant (Australia), Nov 88 (3 pages)*

Argues that consensus is more likely to be the result of the imposition of unilateral decisions by a powerful leader rather than through agreement between members; lists the indicators of successful group discussion and believes that teams can suffer from "group think" (high degree of conformity coupled with lack of creativity) and that team members experience substantial internal tensions; concludes that management teams are no substitute for strong, visionary leadership by one individual.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

Model of Terry Farrell's proposals for the South Bank Centre

ARCHITECTURE

Renaissance on the South Bank

Colin Amery feels the key element will be the new link to the North

The question is, can you have a post Welfare State Festival of Britain? The answer is to be seen in the newest proposals unveiled at an exhibition in the Royal Festival Hall by Stanhope Properties plc and the South Bank Board. Here you will see what Mr Stuart Lipton described as the "real risk:" a developer's proposals to build over and around the cultural monuments a series of shops, restaurants, rehearsal spaces, cinemas and offices, filling in all the gaps left by the planning of the 1960's.

It will not exactly be a permanent festival, but the plans aim to remove the worst concrete detritus of the immediate past and replace it with new entrepreneurial architecture.

The architect for this new plan is Terry Farrell. He has described his scheme as "modest proposals" which he hopes will correct the failure of the past to deal with the urban planning of the area. Modest they may be, but particularly welcome are his proposals to remove all concrete walkways, put people back on the ground and re-order the movement of cars and deliveries so that the place is almost entirely pedestrian. The new "centre of the Centre" is to be a covered area between the Royal Festival Hall, the Queen Elizabeth Hall and the Hayward Gallery.

This is at the moment a bleak concrete chasm. In the new plans it is the central box office and meeting place. It is hard to tell yet what it is going to look like, but the hope is for a glazed mall of at least the standard of the Burlington Arcade. The Hayward and QEH are retained, but their horrendous brutalist architecture is to be disguised by a strange sort of post-modern ziggurat which steps up from the river to a belvedere for the viewing of London.

The river front of the Festival Hall receives a substantial addition, taking it almost to the river edge with public terraces. Next to Hungerford Bridge, where there is an open car park at present, is a large new building sitting on top of a three level car park. Behind a proposed IMAX cinema and some music rehearsal rooms there are to be some commercial offices. In the architect's drawing – which is, to be fair, only a preliminary sketch – this building bears an distinct resemblance to Lenin's tomb rising above the trees.

Next to this, which is the only major completely new building, is the revamped Jubilee Garden with an enormous circular area which is a "memory" of the Dome of Discovery of the 1951 Festival. This will officially be used for outdoor events, but it will clearly be ideal for skate-boarding. Further landscaping will link the garden to the redevelopment of County Hall.

Rescuing the South Bank from its terrible recent past is rather like trying to humanise the Barbican. If you cannot demolish the buildings and start again then you have to adopt this kind of intricate and careful implant surgery. In a perfect world, carbuncles would be cut out not bandaged.

A capital city which boasts the South Bank as the largest arts centre in the world should be able to count on a proud Government to contribute to its enhancement. But the realities are harsh in the market place. Is it possible for some 600,000 square feet of mixed commercial, retail and "business studio" uses to fund this large-scale operation of urban renewal? Mr Stuart Lipton talked of taking a "flying carpet of 150 year leases" on the 27 acres of the whole site as a significant risk for the South Bank Board and the developer.

I am sure that he is right, and that is why these proposals still seem unnervingly modest. It is crucial that, in architectural terms, the new elements of the South Bank are not just thin replicas of the Festival of Britain – an event most people have forgotten or never saw. We are promised a mixture of architects, but they must be given opportunities that match the site. I have always felt that the South Bank needs a lot more building – a much higher density so that it begins to feel like part of a real city and not like an exhibition site sewn up with Sock Shops.

Why is this scheme – which certainly begins to show how a lot of the damage of the past can be repaired – not being exhibited with all the other dramatic proposals for the South Bank? As the ghost of the Greater London Council is finally laid to rest, plans by American architects Skidmore Owings and Merrill for the future of County Hall show huge and effective changes for a large slice of the South Bank.

At Waterloo, the Channel Tunnel Terminal – a design by Nicholas Grimshaw for a striking curved arrivals and departure building under a glass roof – looks as though it could be compromised by the mundane offices proposed around and above it for P&O by architects Renton Howard Wood Levine. The arrival of the Channel Tunnel trains in London with thousands of visitors needs to be marked by proposals for the whole area that will respond to this important event with a sense of appropriately scaled civic scale and grandeur.

The key to the South Bank's renaissance is surely a new link to the North bank. Lurking in the basement of architect Terry Farrell's office is a superb model that solves the problem at a stroke. He has designed a Rialto of shops and restaurants and a covered way that can be built on either side of the existing and hideous Hungerford Bridge. Stylistically it echoes the old towers of the Victorian suspension bridge and it is a brilliant design. Over sensitive souls have, wrongly in my view, declined to let us show a photograph of this new bridge. It should be on show on the South Bank.

It is a key element for the future development of London as a whole. It is imaginative and brave and, even if it has to be called the Margaret Thatcher Millennium Bridge, it should be built. Only with an improved link to the North bank will the South bank become truly seductive again. It took the Royal Engineers to build a Bailey Bridge to the Festival of Britain in 1951 – it is time to build a permanent and beautiful pedestrian link.

Indigo

ALMEIDA THEATRE

Unfashionably, Heidi Thomas's *vantage point* on the vexed question of slavery is that of the self-flagellating white, would-be liberal who has sold his soul but not quite his conscience for the hard currency of black gold. There is nothing else very hard about this third play from a writer who cannot apparently make up her mind whether she is dramatist or poet. *Indigo* arrives in the hands of the new young company Wolfpack Productions via an RSC premiere in Stratford two years ago. Given its provenance, one might have expected something rather leaner and fitter; instead, its story unfolds in great swooshes of language which sweep all before them – character, consistency, plot.

It is set in 1792 in Liverpool, the Gold Coast and all ports between, following the inverse fortunes of a young black prince sold into slavery for insubordination by his father, and a young white merchant, drafted against wish and wisdom into the family trading business. They meet, briefly, on a disease-riddled slave ship, when the tortured William Randall is struck by the noble fortitude of the dying Ide. In an unlikely central scene (which one can only ascribe to poetic licence) Ide dies cradled in the arms of the young slave master in the stinking cargo hold. William (Dougray Scott) proceeds to be haunted by his memory, while remaining ironically oblivious to the living reproof of his pregnant black mistress (Ide's intended wife) and the disenfranchised white youth, abandoned in Africa by an earlier slaver and brought "home" to a country in which he no longer belongs.

Through the character of the surly young Barney (Charlie Creed-Miles) Heidi Thomas sets out to illustrate the impact of class and economic standing on social responsibility and guilt: he, too, is a victim, repeatedly abandoned because, as the Africans point out, "for them he's the wrong size; for us he's the wrong colour." Yet it Barney who finally takes revenge on the callousness of white, male society – by tearing the mixed-race foetus from its black mother's stomach.

The resonance of his action in terms of white, male, working-class racism, is clearly huge, and to be fair to the writer there are several such shafts of insight – although oddly, since the production is obviously intended partly as a vehicle for the black actor Hakeem Kae Kazim, there is little sense of a black perspective. The fault lies to a great extent with the direction of Keith Boak which fails to find a horror to offset the steaming, healthy body and unwasted heroism of Kazim as Ide suffers the last stages of sickness and degradation.

Despite the jangling of collars and chains, the hold scenes remain tasteful repositories of a poetic despair, well-spoken, impassioned but unmoving, just as the early evocations of an African nation intent on selling its own people into slavery most show as a superficial wave of tribal body-paint and native finery. There is no real analysis of the psychology of the proud old king (the rich-voiced but sometimes incomprehensible John Adewole), who fondles a gun butt as he knocks his son down for a few paltry muskets and a few paltry bales of cloth. The statement "civilisation happens to be a highly prized commodity" is the truism that powers the play from the start.

Claire Armitstead

Die Entführung aus dem Serail

NEW THEATRE, CARDIFF

"Any more of this and I might start thinking like a Muslim", quips Blondchen with a knowing look. Yes, it raised a laugh, but do not bother looking for that line in the original text because it is not there.

The new Welsh National Opera production of Mozart's early Singspiel plays to the audience with a few cheap jokes like that one. I do not know whether Robert David MacDonald's translation is new or if it is an existing one that has been gingered up. Either way the production does not blush at playing on its prejudices, racial, sexual and religious, while at the same time missing most of the genuine comedy and humanity integral to the story.

One suspects that the producer, Giles Havergal, is simply out of sympathy with the colourful lightness of the Singspiel tradition. Most of his humour is too heavy-handed (more like G & S) and his idea of updating the action to the Victorian era weakens the political tensions between East and West on which the piece is based. Why should this quietly superior Belmonte, in his colonial white suit and soft shoes, be in awe of so sorry a Turkish Pasha?

Together with Russell Craig's unappealing unit set, a grey tenement building graced only by a few swishing net curtains, this production suggests less of the danger of the work's Turkish setting, less of its exotic, sultry allure, than any other I have seen. The scenario is one of opera's gifts and the WNO team has thrown it carelessly away.

The only place where the Orient really springs to life is in the pit. From its first notes Mozart's "Turkish" Overture went with a tingling sharpness of sound, its effect enhanced – as a glance at the programme notes confirmed – by the adoption of authentic bass drum, cymbals and piccolo. Details like these do tell and it is typical of Charles Mackerras that he should have researched the subject.

Like all of Mackerras's Mozart, the performance was rhythmical and sprightly. It also gave us the full score, which many live performances do not. Only when you hear "Traurigkeit" uncut or the ensembles complete do you realise how much there is to gain from including everything that Mozart wrote, and for that reason it is all the more grievous to have to say that this was not an evening when one especially looked forward to it.

After so many recent productions of *Die Entführung* in which the singers did not even have the notes, it should be a pleasure to come to WNO's. The "Abduction" song in English, sung by a team which has the technical problems under its belt. But Marilyn Hill Smith's Constanze was alternately too thin or hard of tone and Richard Croft's Belmonte too slight, in spite of some well-turned Mozartian singing, to put across the human depths of the music fully.

About Andrea Bolton's Blondchen and Timothy German's Pedrillo one would feel happier if the production had not fitted them, but in "Upstairs, downstairs" style, she with down-to-earth Northern inflexions, he all ringingly resonant Welsh vowels.

Peter Rose, more baritone than low bass, sounded like an Osmin from the East End (London, that is, not Constantinople), while Paul Bentley's Pasha Selim was consigned to a wheelchair and spoke in mock-Turkish English.

What a mix of accents and ideas. The Royal Opera showed us recently how picturesque this opera could be and the old WNO production – better still – how funny and how moving. This is not a perversely bad *Die Entführung*. It is just not a very good one.

Richard Fairman

European Fine Art Fair

MAASTRICHT

This week Maastricht, a small town in the very south of the Netherlands, within shouting distance of both West Germany and Belgium, briefly becomes the centre of the international art market. The 1989 European Fine Art Fair, held in a modern exhibition centre which looks like an out of town hypermarket from the outside and feels like a spaceship inside, offers the greatest collection of paintings and carpets for sale anywhere in the world. It does not do too badly with its range of furniture and other works of art either.

Over a hundred dealers have laid out their wares, ranging in price from a £150 snuff bottle to a Sisley river scene for which the London dealer Richard Green wants over £2m. In all antiques valued at £150m. are for sale, with the rich Germans from the Rhineland the main prospects among the 25,000 visitors.

British dealers have come to love the opportunity that Maastricht provides to meet potential continental customers and 19 have made the journey. The British are led by Johnny van Haeften, who is chairman of Pictura, the painting half of the of Fair, and are concentrating on offering Dutch pictures. Anyone wanting a good 17th century still life (one of the fastest appreciating sectors of the art market in the last three years) will have the choice of over 100 here, but will have to pay more than £300,000 for a good example. There are also enough seascapes, church interiors, and 17th century Dutch domestic scenes to stock an art gallery.

Some London dealers have varied the diet – Colnaghi has one of the few English paintings at the Fair, a pretty Reynolds of a girl and a dog priced at £285,000, as well as one of the earliest, a striking portrait of a man from the rare Provencal School of the mid 15th century, and priced at £300,000. Feigin offers a grisaille oil by Van Dyck, "Rest of the flight to Egypt" priced at $650,000 (£378,300), a sketch for the Madonna and Child in the Queen's collection, while, completely against the run of local taste, Connaught Brown is displaying a Spencer Gore view of Mornington Crescent, from the Camden Town school.

Sometimes you cannot help being struck by the gall of dealers asking twice the price for pictures that they have only recently bought in the saleroom; but the energy that has gone into assembling so many fresh items from all over the world makes such profit margins almost forgivable. And of course you can always negotiate over price. On the first day Newhouse had sold a Rubens portrait of a bearded man to a Swedish collector for $850,000 and Vanderven and Vanderven, the orientalists, two Tang figures for $100,000 to a West German buyer.

There are very few Impressionists, or after, on offer and the contemporary art is rarely to the British taste. Apart from the elaborately detailed 17th century cabinets the continental furniture often looks heavy and depressing. But Maastricht opens the eyes to the glories of rugs and carpets, always a feature of the Fair, and lets some welcome fresh air into the claustrophobic world of London's dealers and salerooms.

Two new features this year are a lecture series and an "Orangerie" exhibition, an idea stolen from the Berlin Fair, where a hundred leading dealers from around the world offer for sale one select item from their vaults.

Antony Thorncroft

Margaret Price

ST JOHN'S, SMITH SQUARE

Miss Price won hearts on Saturday just by turning up, for she was plainly in the throes of a bronchial attack which made speaking and even breathing difficult. Her recital with the pianist Graham Johnson was a benefit for the Aids charity Crusaid, with sponsorship by Merrill Lynch. Most fortunately, her own particular virus left the singing voice intact: she sounded lovely, her generous resources of soprano tone unimpaired and her phrasing elegantly confident.

In fact this was a recital notable for its romantic warmth, not always the strongest Price suit. Perhaps it was the occasion, or the opulent St John's acoustic, or perhaps even the virus: at any rate, she conveyed more vulnerable appeal than her formidable polish sometimes permits. She began with what has been her favourite opener these many years, Mozart's little Masonic cantata K 619, less hortatory now than cajoling. There followed a rich haul of Brahms songs, among them a radiant, visionary 'Abendregen', a haunting 'Mädenlied' and an account of 'Der Tod, das ist die kühle Nacht' which was as searchingly beautiful as one is likely to hear.

The delightful second half of her programme was all folk or folk-ish: familiar Britten arrangements and a pair of his less familiar French settings, Ravel's Greek adaptations, a half-dozen witty character-songs by Granados. Throughout this part of the recital, Johnson was at his sympathetic best; one would have appreciated a firmer pulse from him to underpin the slower Brahms songs, but probably he was more concerned there with adjusting to Miss Price's expansive tempi. The result anyhow forbade niggling complaints.

David Murray

ARTS GUIDE

March 10-16

MUSIC

London

London Philharmonic Orchestra conducted by Bernard Haitink, with Andrei Gavrilov (piano). Tippett, Beethoven, Holst. Royal Festival Hall (Mon) (01-928 8800).
Warswa Philharmonic Orchestra conducted by Kazimierz Kord, with Ida Haendel (violin). Tchaikovsky, Dvorak, Shostakovich. Barbican Hall (Tue) (638 8891).
BBC Symphony Orchestra conducted by David Atherton, with Gordon Fergus-Thompson (piano). Tchaikovsky, Rachmaninov. Barbican Hall (Thur) (638 8891).
Royal Philharmonic Orchestra conducted by Richard Bradshaw, with soloists including Margaret Price and Sergei Leiferkus in a concert performance of Verdi's *Giovanna d'Arco*. Royal Festival Hall (Thur) (01-928 8800).

Paris

Nathalie Stutzmann (contralto), with François-René Duchable (piano). Brahms, Schumann, Debussy, Poulenc (Mon). Théâtre de l'Athenée (47426727).
Sviatoslav Richter recital. Salle Pleyel (Mon) (45638873).
Czech Philharmonic Orchestra conducted by Veclav Neumann. Mahler's Symphony No.9. Chatelet (Tue) (40282828).
Nouvel Orchestre Philharmonique conducted by Marek Janowski, with Marjana Lipovsek. Mahler. Chatelet (Wed, Thur) (40282828).
Ensemble Orchestral de Paris conducted by Armin Jordan, with Paul Boufil (cello). Tischhauser, Haydn, Mozart. Salle Gaveau (Thur) (45632030).

Vienna

Haydn Days Festival. Concilium Musicum on original instruments, conducted by Paul Angerer. Haydn, Beethoven, Ferrari. Musikverein (Mon).
Haydn Days Festival. Wiener Schubert-Trio. Höffmeister, Haydn, Beethoven. Musikverein (Tues).
Wiener Symphoniker conducted by Peter Gulke. Schreker. Musikverein (Wed).
Wiener Kammerorchester conducted by Yu-Shen Chao. Kreuz, Mozart, Dvorak. Konzerthaus (Thurs).

Amsterdam

Netherlands Philharmonic Orchestra conducted by Anton Kersjes, with Daniel Wayenberg and Louis van Dijk (pianos). Bernstein, Gershwin, Saint-Saens, Dukas (Tue).
Amsterdam Baroque Orchestra and Choir of the Netherlands Bach Society, Ton Koopman conducting. Bach's St John Passion (Mon) Concertgebouw (718 345).

Frankfurt

Academy of St Martin in the Fields with violinist and conductor Iona Brown. Mozart, Strauss, Bach and Martin. Alte Oper (Tues).

Berlin

Württemberg Chamber Orchestra under Jörg Faerber, with Anne-Sophie Mutter (violin). Haydn, Lutoslawski, Bruch and Wagner. Philharmonie (Mon).

Rome

Auditorium in Via Della Conciliazione. Andrew Davies conducting Mozart and Berlioz (Mon).

Milan

Teatro alla Scala. Cellist Boris Pergamenschikov and pianist Pavel Gililov playing Schumann, Brahms and Rachmaninov (Mon).

New York

Orpheus Chamber Orchestra with Alfred Brendel (piano). Mozart programme. Carnegie Hall (Mon) (247 7800).
Maurizio Pollini piano recital. Brahms, Schoenberg, Stockhausen, Beethoven. Carnegie Hall (Tue) (247 7800).
New York Philharmonic conducted by Erich Leinsdorf with Cristina Ortiz (piano). Stravinsky, Stenhammar, Ravel. Lincoln Center Avery Fisher Hall (Tue) (874 6770).
Juilliard String Quartet directed by Jaime Laredo. Bach programme. Kaufmann Hall (Tue). (427 6000).
Philharmonia Virtuosi conducted by Richard Kapp. Vivaldi programme. Town Hall (Tue) (842 1818).
New York Philharmonic conducted by Erich Leinsdorf with Maria Ewing (soprano) and the New York Choral Artists directed by Joseph Flummerfelt. Brahms, Debussy, Berlioz. Lincoln Center Avery Fisher Hall (Thur) (874 6770).
Marc Laforet piano recital. Chopin, Schubert, Beethoven. Kaufmann Hall (Thur) (427 6000).
James McKissic piano recital. Beethoven, Liszt. Carnegie Hall (Thur) (247 7800).

Washington

American Chamber Orchestra with Toshiko Kohno (flute), Deborah Fleisher (harp). Mozart programme. Kennedy Center Terrace Theatre (Mon) (254 9895).

Chicago

Israel Philharmonic Orchestra conducted Zubin Mehta. Brahms, Schoenberg, Schubert. Orchestra Hall (Mon) (435 6666).
Chicago Symphony Orchestra conducted by Leonard Slatkin with Mark Peskanov (violin). Bartok, Schumann, Janacek. Orchestra Hall (Tue) (435 6666).

Tokyo

Ensemble Instrumental de France. Vivaldi. Showa Women's University Hitomi Memorial Hall, near Sangenjaya (Mon) (402 6753).
Yomiuri Nippon Symphony Orchestra conducted by Walter Weller. Beethoven programme. Suntory Hall (Mon) (270 6191).
NHK Symphony Orchestra conducted by Hans Drewanz, with Valery Afanassieff (piano). Brahms. NHK Hall (Wed, Thur) (465 1780).

London Philharmonic

FESTIVAL HALL

Its former Principal Conductor, Bernard Haitink, directed the London Philharmonic in a cleverly chosen but ravishingly sensuous programme at the Royal Festival Hall on Saturday night. Haitink's mastery was hugely in evidence: without in the least risking a flashy or sensationalist effect, he gives a display of bravura conducting and dynamic musical intelligence; his beat is instantly and obviously effective; he compels the orchestra to play at the peak of its power. There remained virtually nothing for the critic to cavil at in these performances of Stravinsky's *Symphonies of Wind Instruments*, Debussy's *Jeux* and Ravel's complete ballet score for *Daphnis and Chloë*.

Perhaps one might claim that the Stravinsky work had been played a little *too* beautifully, that the primitivistic harshness of the music had been played down. But the raptness of the interpretation and its depth of feeling were ample compensation. In *Jeux* Haitink surpassed himself: the fabulous colours which Debussy discovers in his enigmatic and enormously influential score were meticulously brought out. To sit at the centre of this swirling aural kaleidoscope was a hedonist's paradise.

This *poème dansé* – illustrative of some three-way flirtations on a tennis-court, and, rather charmingly, conceived by Diaghilev and Nijinsky as "a plastic apologia for the man of 1913" – is the most sophisticated tease in all music; it is made entirely out of iridescent snippets of dream, stitched together marvellously but most mysteriously. Each glint of vanished sunshine, each surge of transient feeling, each caress, sulk, and naughty intimation of the score was captured under Haitink's minutely sensitive and plastic control. His sense of the hidden logic of the work's absolutely continuous, baffling form was manifest. Only the absolute poise of the dry, suggestive throw-away ending escaped him.

Daphnis and Chloë glutted the senses – I use the plural advisedly, since the visual and kinetic counterparts to the beautiful aural experience were readily imaginable; indeed, in the prelude to the final scene, one could veritably smell the freshness of the breaking day, just as one could clearly see the two shepherds passing by. The ballet easily stands by itself in the concert hall. This performance, with evocative wordless contributions from the London Philharmonic Choir, was magical and magisterial.

Paul Driver

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Crossing the debt quagmire

MR NICHOLAS Brady, the US Treasury Secretary, deserves credit for rushing in where angels might fear to tread. But he should have remembered that even as shrewd a man as former Treasury Secretary James Baker advanced a plan that then failed to provide a way across the debt swamp. With this precedent, one would have expected him to ensure that any new ideas were carefully considered, avoided the most obvious hazards and, at the very least, had the support of Mr George Bush.

Unfortunately, the "suggestions" advanced last Friday fail to meet these criteria. That the proposals have secured the backing of the Japanese Government, but not of the President, may say something about changed priorities at the Treasury. In all, they provide further evidence of an administration for which good intentions are a substitute for financial resources. Moreover, there is now a danger that ongoing debt negotiations will be derailed, with nothing concrete to put in their place.

The problem of helping the indebted countries is intractable. Some progress has been made, notably in shoring up the commercial banks. But, as Mr Brady points out, many developing countries are able neither to obtain the trust nor to exact the obedience of their own more prosperous citizens. Thus the flight capital assets of citizens of the 15 indebted countries picked out by Mr Baker are thought to be well over half their external indebtedness. Be that as it may, the flow of resources to the indebted countries has remained inadequate to ensure reasonable growth or even political stability, as shown recently on the streets of Caracas.

Official involvement

What should be the aim of the industrial countries? After that of the stability of the financial system, it is clearly to facilitate the emergence of stable, democratic, market-oriented countries.

The difficulty lies in determining the nature of the official involvement this implies. Debt reduction, for example, is perilous. Moral hazard is the greatest risk, with the largest rewards going to the worst-managed countries. Debt reduction will also inevitably militate against the provision of new money from commercial lenders. Finally, debt reduction could well prove contagious across countries and progressive within each.

It is important, therefore, to minimise official support for debt reduction as a general principle (beyond encouraging realism in the accounts of commercial banks). A better approach is to use debt reduction as one way of increasing the net flow of resources to countries carrying out ambitious adjustment programmes. If a country has demonstrated a capacity to go beyond hand-to-mouth policy-making, it seems appropriate to go beyond hand-to-mouth debt restructuring as well.

Crucial role

The IMF and the World Bank will play a crucial role, as Mr Brady rightly stresses. The new idea from Mr Brady is that these institutions could provide direct financial support for debt reduction, perhaps through interest guarantees. The dangers of the suggestion must also be remembered. The World Bank, for example, possesses other clients which do not deserve to lose access to its scarce resources because they have been too poor or too well-managed to fall into the debt trap. There is also the risk that the international organisations possess insufficient resources to resolve the problem, but will be forced to commit too much to preserve themselves.

Perhaps the best approach would be to create a new international fund for interest guarantees within the World Bank, but separate from its general accounts and limited in time. The resources could then be used in conjunction with an enhanced programme of structural adjustment lending to carefully selected countries.

All this will take money, if anything substantial is to be achieved. Unless the industrial countries recognise the scale of official support required to secure successful adjustment in indebted countries, there may well be no path across the debt quagmire at all.

The corporate cornucopia

FROM THE point of view of the Chancellor of the Exchequer the reform of corporation tax in 1984 has proved an egregious success, a veritable cornucopia. In 1983-84 corporation tax raised £6bn, about a fifth as much as income tax. According to estimates by the Institute of Fiscal Studies (IFS) in its latest Green Budget, corporation tax will raise close to £20bn in 1988-89, just under half as much as income tax.

It is hard to object to success on this scale, even if the main reason is not the tax changes themselves but the radical improvement in corporate profitability: the net rate of return on industrial and commercial companies at current replacement cost (excluding North Sea oil) more than tripled between 1981 and 1987. None the less, all is not well with corporate taxation.

Ideally, the chosen system of taxation should not alter investment choices (by comparison with the situation without the tax). It should also not distort the finance of investment. Last but not least, the burden of the tax should be independent of the rate of inflation. Unfortunately, the reformed corporation tax fails on all counts and actually increased distortions in certain key respects.

Smaller distortion

In the first place, the reformed corporation tax acts as a disincentive to fixed investment, largely because of its inadequate allowances for capital expenditures. In the second place, there remains a bias in favour of debt rather than equity as a means of finance. The distortion here is significantly smaller than under the old system, when the rate of corporation tax was 52 per cent. Nevertheless, interest expenses are effectively tax-deductible at the rate of 35 per cent, while dividends are deductible at 25 per cent through advance corporation tax.

Most importantly of all, the corporation tax is vulnerable to inflation. The principal reason for this feature is that accounts are computed in terms of historic costs. Thus the Inland Revenue collaborates with the accounting profession in preferring accounts that are precisely wrong to ones that are roughly right.

A study published by the IFS in 1987 demonstrated that the new system imposes a higher effective rate of tax than the old one, despite a reduction in the tax rate from 52 to 35 per cent, as soon as the rate of inflation goes above 7½ per cent. Even with inflation as low as 5 per cent effective average tax rates are nearly a third higher for industrial and commercial companies than without inflation.

Modest solution

There is a radical solution to all these problems: the "cash-flow corporation tax", with 100 per cent first-year allowances for all forms of investment, taxation of capital gains at full corporate rates, tax-deductibility of interest, and taxation on new borrowing. More modest reforms do exist, however, which would at least deal with the vulnerability to inflation, while removing the incentive to use debt finance. Thus corporate accounts would be adjusted for inflation and the rate of corporation tax would be lowered towards that for advance corporation tax.

Corporations have been saving about half their income in recent years, while the personal sector has been saving close to nothing at all. A Chancellor concerned to raise private savings could, therefore, combine the two changes, simultaneously improving economic efficiency and lowering the tax burden on corporations. But corporations are their own worst enemies. The Government is understandably concerned that they would shower the fruits of lower taxation on their workers in the form of higher wages.

Yet failure to modify the corporation tax leaves the economy with a potentially disastrous hostage to inflation. In an era of soaring real profitability and modest inflation, the problems inherent in the tax did not appear significant. With relatively high inflation and a profits squeeze in the offing, the situation is likely to look very different in the coming year or two. The economy may yet pay dearly for the Chancellor's twin failures in the control of inflation and the reform of corporation tax.

Britain is unprepared for its community care needs, writes Michael Prowse

Providing for the old and disabled

MR Kenneth Clarke, Britain's Health Secretary, will shortly have to confront a social problem that is potentially far more taxing than the overhaul of the National Health Service. The rapid ageing of Britain's population is causing a big increase in the numbers of people who require some form of community care. Yet the financial and organisational structures to make a reality of such care frequently do not exist.

The care needed often has nothing to do with ill health as such. Mobility declines with age and many elderly people need help with shopping, cleaning, dressing and bathing. Many can no longer cook for themselves. Some are incontinent. Others have physical and emotional disabilities and badly need rehabilitation and counselling services. Some are simply lonely and confused.

The scale of potential need can be gauged by the numbers of elderly people. There are 8.5m people aged 65 or over, 600,000 of whom are at least 85. The numbers of very elderly are expected to increase by nearly 50 per cent over the next decade.

Yet this is only part of the community care story. There are also large numbers of people who need help throughout their lives. Some 1.2m people are registered as substantially or permanently handicapped. As many as 6m people have a disability of some kind. A third of the disabled are of working age.

Some 160,000 adults in England and Wales alone have a severe or profound mental handicap. Each year, some 5m people consult their general practitioners about a mental health problem. Around 600,000 are referred to specialist psychiatric services.

The four client groups requiring community care – the elderly, mentally ill, mentally handicapped and physically disabled – thus include a surprisingly large proportion of the community.

Yet despite its critical importance, community care receives very little attention. Acute medicine takes priority in the NHS – a tendency that is likely to be reinforced by the recent reforms. And child care hogs the limelight in local authority social services departments, particularly since the Cleveland child abuse scandal.

The neglect is matched in Whitehall. Ministers have yet to respond to either A Positive Choice, Lady Wagner's report on residential care, or Sir Roy Griffiths' Community Care: An Agenda for Action. The government-commissioned reports have been gathering dust for a year.

Yet both Lady Wagner, a former chairman of Barnardo's, and Sir Roy, deputy chairman of J. Sainsbury and Mrs Thatcher's special health adviser, argued for urgent reform. Both said the status quo was unacceptable.

Traditionally, the elderly and disabled faced two options: care at home by family and friends or an institution. During the 1960s, however, enlightened doctors and social workers began to argue that institutional life increased dependency and often did not serve the real interests of inmates.

It became obvious that professional carers should strive as far as possible to mimic the kind of care most people want: the sort the fortunate get in their own homes from their families. But community care was also popular in Whitehall because the emptying of asylums and geriatric wards offered considerable cost savings.

Community care became official policy in the 1970s. Between 1976 and 1986, the number of NHS beds occupied by the mentally ill fell from 83,000 to 61,000; the number occupied by the mentally handicapped from 49,000 to 34,000. The decline in geriatric beds – from 51,000 to just under 49,000 – was less dramatic, but still startling given that the numbers of elderly rose by 600,000 or 10 per cent during these years.

The numerical scope for further falls remains considerable. The community care priority groups still occupy 57 per cent of all NHS beds – and that figure does not include the 44 per cent of acute beds occupied by the elderly. The mentally ill alone occupy 24 per cent of all NHS beds.

The run-down of institutional care by the NHS is clearly proceeding according to plan. But the failure to develop replacement care in the community has been little short of scandalous. The number of places in community day centres has fallen far short of what was required. Walk around the centre of any British city and you will soon come across people who are obviously mentally disturbed. Nobody knows what happened to many of those discharged.

Provision of basic community services such as meals on wheels and home helps has increased in the past decade. But the increase has not been enough to keep pace with the growth in the number of the elderly and the flood of people discharged from NHS institutions. There are chronic shortages of specialists such as occupational therapists. In many places community care is little more than a pious phrase.

What went wrong? The short answer is that cash was not transferred from the NHS to local authorities on anything like the scale required. In addition, social services departments have been subject to the same general financial squeeze as the rest of local government and have thus often been unable to respond to ministerial injunctions to provide more community facilities.

Responsibility for community care, as the Audit Commission emphasised in 1986, is also fragmented between many different agencies: social services departments, housing departments, voluntary agencies, family GPs, NHS community health services and the private sector. Yet all have different priorities, styles and budgetary arrangements.

Different forms of care, moreover, are financed in different ways. Domiciliary care provided by local authorities is constrained by the budgets of social services departments. They have to assess the needs of clients and ration services accordingly.

But no such assessment of need occurs in the case of care provided by a private residential home. Means tested social security support is available with no further questions asked. But this money cannot be used to buy cheaper and often more appropriate domiciliary care from local authorities or others.

The elderly, mentally ill, mentally handicapped and physically disabled include a surprisingly large proportion of the community

The paradoxical consequence is that the run-down of NHS institutional care has been accompanied by a large expansion of private residential care. The number of places in registered private homes has increased about fivefold to well over 100,000 in the past decade. There is also a large unregistered and unregulated sector. The income support bill has risen from £6m in 1978/79 to £878m last year. Instead of promoting community care, ministers have thus unwittingly promoted the substitution of one form of institutional care for another.

The 1988 Wagner report expressed "burning indignation" at the way many institutions – and not just those in the private sector – continue to devalue the lives of inmates. It was strongly critical of the way many elderly people are forced to share sleeping accommodation as a condition of admission. "For residents capable of managing their own affairs," it noted, "the requirement to surrender their pension or allowance book and receive back a weekly sum in 'pocket money' is surely unnecessary, inconsiderate and demeaning."

The case for stronger regulation of homes looks unanswerable. So does the argument for expansion of community care facilities. As Lady Wagner said, people should make a positive choice to enter institutions, not be forced there by the lack of domiciliary services. People, she argued, should not have to move solely in order to receive care that could be provided in their own houses.

Sir Roy Griffiths accepted many of these criticisms. His proposed solution runs as follows. First, the fragmentation of responsibility for community care must be ended. Somebody must be put in charge. In his view the only plausible candidate is local authority social service departments.

Second, those given responsibility must have control over adequate budgets. Local authorities should therefore get a specific grant for community care. This would replace expenditure by both health authorities and social security offices.

Third, all forms of residential and community care should be placed on an equal financial footing. This would mean the ending of the open-ended commitment to fund private homes through income support. No public finance would be available without "an assessment of need" undertaken by local officials.

Fourth, local authorities should not act as monopoly suppliers of community care, but rather as "enablers". Individual care managers would be appointed. Their job would be to purchase cost-effective care for clients from competing suppliers in the private, voluntary and public sectors.

The reaction to these proposals has been somewhat perverse. Ministers might have been expected to jump at an opportunity to shift full responsibility for community care to local authorities. After all, the potential problems associated with the growing elderly population are formidable. Social services departments could be a convenient whipping boy if things go badly wrong in the future.

Sir Roy, moreover, was proposing to extend responsibility on stiff terms. The central government grant for community care would cover only about 45 per cent of expected needs. Local authorities would have to raise the rest of the money from other sources, the most obvious being charges on clients. He even discusses the possibility of extracting equity from home owners as a means of meeting community care bills.

Yet ministers have shied away from implementing Griffiths' proposals presumably on the grounds that an extension of local authority responsibilities, even if subject to tough financial curbs, would be politically unacceptable. The Downing Street policy unit and think-tanks such as the Adam Smith Institute are working overtime therefore, trying to formulate alternatives.

Meanwhile, the response to Griffiths from those on the ground has been better than could have been hoped. Directors of social services departments are obviously delighted by the recommendation that they should assume overall charge. But a broad coalition of voluntary organisations, community medical representatives and housing associations has also endorsed the proposals.

The Government's intentions remain unclear. Ministers would like to give somebody other than local authorities the lead role. But who? Family practitioner committees have been suggested. But they lack the expertise of social services departments and will, in any case, be fully occupied trying to implement the controversial health care reforms.

New quangos of some kind – perhaps local community care boards headed by senior businessmen – might appeal to Mr Clarke. But there is a difficulty. A key clause in the 1987 Disabled Persons Act specifically gives local authorities responsibility for assessing the needs of the handicapped, disabled and mentally ill. Can the Government do a U-turn? In any case, how could it justify giving unelected executives authority to assess local needs and monitor performance in this sensitive area?

Commentators disagree in their diagnoses but all accept that action of some kind is now imperative. The NHS, to which so much ministerial energy is devoted, is a paragon of virtue and efficiency when set against the Heath-Robinson arrangements for community care.

Mr Clarke must face up to the consequences of the ageing population and create more appropriate organisational and financial structures. But he must also confront an issue that goes beyond Sir Roy's remit: the need for increased expenditure if today's patchy services are to be significantly extended.

OBSERVER

Palace and the PM

■ Queen Beatrix of the Netherlands made an unexpected appearance at the summit meeting on the international environment in The Hague on Saturday. She sat next to the Dutch Prime Minister, Ruud Lubbers, in a way that would hardly have happened in Britain. The Queen had already hosted a luncheon for the presidents, ministers and one King (Hussein of Jordan) attending the meeting.

The *pas de deux* between the Dutch Queen and the Prime Minister has some similarities to events at home. Just as the Prince of Wales was warning of environmental risks long before Margaret Thatcher turned green, so it is in Holland.

Queen Beatrix was obliged to say in her annual speech from the throne last September that the Netherlands were getting steadily cleaner, especially in terms of water and air. That speech is traditionally written for the monarch by the Prime Minister. The Queen did not much like it. So she used her Christmas message, which she writes herself, to set the record straight. She gave an apocalyptic warning of imminent disaster if more were not done to stop pollution.

Lubbers has since seen the light and is now among the greenest of the green. The Queen's presence at the meeting, however, clearly surprised Dutch officials, who were saying beforehand that she would confine herself to giving the lunch. Plainly the Palace is keeping up the pressure. The environment is now the number one issue in Holland.

Where to stay

■ Deposed dictators are unwelcome guests, as General Alfredo Stroessner is learning to his cost. For the past five weeks he has been cooling his heels in Brazil, close to home but far removed from the unrivalled power he enjoyed in Paraguay for 34 years.

The Brazilian Government agreed to give the 76-year old general temporary exile on humanitarian grounds after he was removed from the presidential palace in Asunción last month by his top military commander. Once in Brazil, Stroessner applied to the US for a visa, but is still waiting to hear from the State Department. Such a delay suggests he will not be welcome in the US, although members of his family have been allowed in.

Brasilia is already resigned to the fact that he will have to be their (paying) guest. Indeed, it is tacitly recognised that looking after Stroessner is an inevitable consequence of the way successive Brazilian governments tolerated his dictatorship as a sort of neighbouring satrap. As one senior Brazilian official put it: "Other countries have granted exile to their own dictators – look at Marcos going to the States and Duvalier ending up in France. To each his own."

Rhine maiden

■ Chancellor Kohl of West Germany is planning to charm Margaret Thatcher next month by guiding her on a romantic tour through the wine-growing villages in his home region of the Rhineland Palatinate.

The visit to the forests and vineyards west of the Rhine, one of the most bucolic and enticing spots of the Federal Republic, is being arranged to bring together the two leaders' positions on the modernisation of nuclear weapons before the Nato summit meeting in Brussels in May. It will take place over a weekend in late April.

Kohl comes from a suburb of Ludwigshafen, the Rhine port city dominated by the BASF chemical works. He is keen to show Thatcher some of the surrounding glories. The cathedral city of Speyer is already on the itinerary, and Kohl aims to persuade the Prime Minister to imbibe the local produce in at least one wine-tasting stop.

"How can there be more competition – there isn't anyone older than us?"

On the question of when and whether to replace Nato's ageing Lance nuclear missiles with new weaponry, she is likely to have to submit to Kohl's view that no firm decision is required until after the federal elections in December next year.

West German officials say that, since the Americans are not pressing for a quick decision, the British will have to accept the delay. They hope that Thatcher's previous fierceness on the subject will fade away in a haze of Palatinate Gemütlichkeit, and it is true that relations between Kohl and Thatcher seem to have sweetened recently.

Kohl's officials are also working hard on an itinerary for Mikhail Gorbachev in June. The Soviet leadership will not allow Gorbachev to fly by helicopter for safety reasons, so his travels will no doubt involve closing down large stretches of German motorways for several hours.

Gorbachev will go to the capitals of North Rhine-Westphalia, and of Bavaria or Baden-Württemberg as well as Bonn. He will probably visit the Friedrich Engels Museum in Wuppertal. He may give Karl Marx's birthplace in Trier a diplomatic miss, since Erich Honecker, the East German leader, visited it in 1987, and it would not do to be seen treading in the old renegade's footsteps.

Rebel tours

■ Afghan resistance parties have put an abrupt end to what had become known as "Resistance Tours Inc": package trips for journalists to experience "war-torn Afghanistan", with complimentary rocket attacks thrown in for network crews.

Pakistan's military intelligence (ISA) has resumed arresting war-hungry reporters at the border and is threatening the resistance parties that any group found in possession of a journalist will be liable to pay a fine of 100,000 rupees (about £3,000) per journalist per day. There is no question of refusing to pay. ISA controls the distribution of arms and money to the resistance. Those who do not comply, go without.

On the brain

■ From a report of a meeting at a Surrey women's club: "In an amusing talk the speaker told us his theory about baldness in men – that usually a man who is bald in front is a thinker, and a man who is bald at the back is very sexy. There was laughter when Mrs X asked: 'What about men who are bald back and front?' 'They just think they're very sexy.'"

Peter Norman assesses the challenges ahead for the European Monetary System

Success turns to uncertainty

Until last year, the European Monetary System was regularly hailed as one of the European Community's major achievements. But no more. Today's 10th anniversary of its start is set to be a low-key affair with none of the laborious celebrations of past Euro-events.

Having successfully limited currency fluctuations between West Germany, France, the Benelux countries, Denmark, Ireland and Italy in recent years, the EMS is entering its second decade in the shadow of more glamorous projects. Compared with the 1992 programme to create a barrier-free EC-wide market and the prospect of economic and monetary union in the Community, the EMS appears an incomplete, compromise-ridden structure.

Many of the EC central bankers who operate the system are concerned at this partial eclipse. After a shaky start, the EMS confounded sceptics by establishing a zone of relative exchange rate stability and low inflation in the eight nations that are full members.

For some, the decision of last summer's EC summit in Hanover to ask central bank governors under the chairmanship of Mr Jacques Delors, the Commission President, to explore what concrete steps should be taken towards economic and monetary union looks like a dangerous distraction. It comes as the EMS may be entering a third, more unstable period in its history – after first offering little in the way of currency stability but later achieving credibility as a D-Mark dominated currency zone.

The system faces a number of potentially explosive issues: the planned elimination of exchange controls throughout the Community by June 1990; West Germany's growing trade surpluses with EC countries; and underlying concern among some of West Germany's partners that the EMS is too much of a D-Mark block. Some EMS central bankers fear that while European leaders focus on longer-term economic and monetary union, they could find the EMS half-way house threatened with collapse.

But the EMS has coped with crises ever since it was conceived in the late 1970s as a "zone of monetary stability" by Mr Helmut Schmidt, the West German Chancellor, and Mr Giscard d'Estaing, the French President. For example:

- The system got off to an inglorious start when a row over its impact on EC farm pricing caused an 11-week delay.
- Britain refused to join the exchange rate mechanism that limits exchange rate fluctuations between most EMS currencies to 2.25 per cent either side of agreed central rates. Italy joined on condition that it got wider 6 per cent margins for the lira. And the EC's late entrants, Spain, Portugal and Greece, are outside the exchange rate mechanism.
- During its first four years, the EMS suffered seven of its 11 parity realignments to date in the face of speculative attacks. Ambitious plans to pool part of the reserves of EMS member states and create a European Monetary Fund after two years' operation never came to fruition.

However, the system's biggest crisis – a particularly acrimonious realignment in March 1983 during which France threatened to quit – ushered in an era of greater stability. The Socialist government in Paris abandoned strongly expansionist policies that had caused a balance of payments crisis and fell in line with the Bundesbank's counter-inflationary goals.

The gap between French and West German inflation rates narrowed – to less than 1.5 percentage points last year – from an average 6.5 points between 1974 and 1981, removing a major disruptive element. The average rate of inflation in the eight core EMS countries fell to 3 per cent between 1985 and 1988 from more than 8 per cent in the late 1970s. Greater stability has meant that there has not had to be a realignment since January 1987.

The French action showed that countries were prepared to use the EMS to impose discipline on their economies. Since then, the EMS has won credibility in financial markets – in part because recent realignments have been too small to reward speculators.

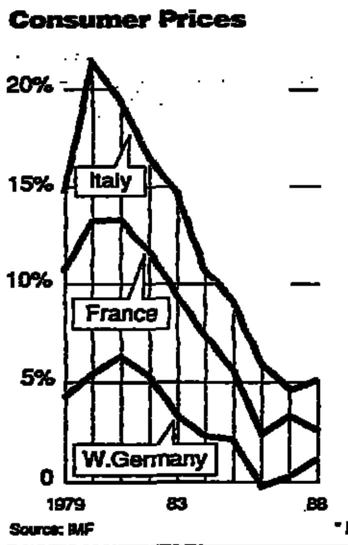
But it has also become indisputably a D-Mark zone. Among EC central banks, it is the Bundesbank that has most influence on European monetary policy. And the D-Mark is the main reserve and intervention currency, leaving little scope for the European Currency Unit, a weighted cocktail of EC currencies that was supposed to be at the "centre of the system." The Ecu has, however, gained some acceptance on private capital markets.

Contrary to original hopes, the EMS has failed to evolve into a genuinely community-wide system of sharing burdens. Complaints about West German policies having a deflationary impact on other EMS countries – especially France and Italy – have lost some of their force following last year's strong West German growth of 3.4 per cent. But West Germany currently has soaring trade surpluses with all its EMS partners except Ireland. This trend has been cemented by the practice of keeping devaluations of other EMS currencies against the D-Mark below the level needed to restore full competitiveness to Germany's trading partners.

The pegging of EMS currencies to the D-Mark has allowed other countries to "buy" Germany's low inflation record but at the expense of higher unemployment in all its EMS partners except Luxembourg.

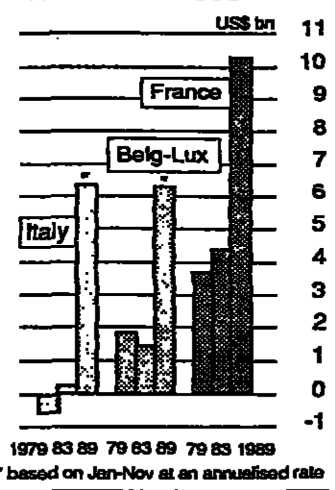
It is Italy that is currently raising the biggest questions about the EMS. The Italian authorities fear that removal of exchange controls by June next year, as part of the 1992 programme, could channel Italian savings abroad, making it more difficult to finance the country's huge budget deficit and possibly forcing much higher interest rates.

Consumer Prices



Source: IMF

W.Germany's Trade Balances



* based on Jan-Nov at an annualised rate

Mr Lamberto Dini, the Bank of Italy's director general, has described elimination of exchange controls as the "biggest ever challenge" facing the EMS. "Full capital mobility is not consistent with the present degree of monetary-policy co-ordination in Europe," he says.

France, which acted only last Thursday to lift its remaining exchange controls for companies, has now liberalised most capital movements without suffering a damaging run on the franc. Its experience suggests that the Italians may be worrying excessively.

None the less, Italy complains that nothing is being done to steel the system for the June 1990 upheaval. The Bank of Italy wants a co-ordinated monetary policy in Europe leading to fixed exchange rates not completely subordinated to the counter-inflationary priorities of the Bundesbank. That would mean a European monetary policy taking account of issues such as unemployment or growth, a position that has always been anathema to the Frankfurt authorities.

Change in the EMS has traditionally required French and Italian co-operation. But Italy's capacity to force change may be compromised by the convergence of French and West German economic performance. With France and West Germany intensifying links through institutions such as the Franco-German economic council, the EMS driving seat could widen to a "bench", holding both the Bundesbank and the Bank of France.

But West Germany's huge trade surplus with France – which has risen steadily since 1983 from DM 11bn to around DM 19bn last year – puts a strain on relations between the Bundesbank and Mr Pierre Bérégovoy, the French Finance Minister. Bundesbank interest rate increases cause tension because they push already high French rates higher when, on EC definitions, more than 10 per cent of France's labour force is unemployed compared with around 8 per cent in Germany.

The Bundesbank argues that its role is not of its own seeking, but derives from the D-Mark's position as the strongest and internationally most widely used of the EMS currencies. Countries wanting change should not try to bend EMS rules but aim for the same degree of anti-inflationary rigour in domestic policies as West Germany.

This argument may be less compelling now that inflation in most EMS countries is below 5 per cent. After disinflation became established in the EC, the Bundesbank met some of its partners' complaints by accepting minor modifications to EMS intervention rules in the so called Basle-Nyborg agreement of September 1987.

Such flexibility, although limited, suggests that the EMS is capable of development from within while the absence of defectors from the exchange rate mechanism in its 10 year existence demonstrates the system's staying power.

Unless EC leaders decide to move quickly later this year, it is likely that EC economic and monetary union will be a distant goal, whatever the findings of the Delors Committee which meets again tomorrow in Basle for its penultimate session. Meanwhile, the Bundesbank and Bank of France both favour development of the EMS as the best way of moving cautiously towards economic and monetary union.

With Britain determined to block any move towards a European central bank or common currency, the EMS could again become the focus for further economic integration in the EC. The EMS could then return to centre stage in the Community, but with Britain still cast as a bit player.

LOMBARD

Treasury First Lord – less than it seems

By Samuel Brittan

Several recent British Prime Ministers, including Harold Wilson as well as Margaret Thatcher, have liked to remind us that one of their official titles, inscribed outside No 10 Downing Street, is First Lord of the Treasury.

Those familiar with the workings of British government treat these reminders as little more than prime ministerial teasing based on a constitutional anachronism. But they did begin to look slightly less teasing earlier this year when some of the popular Thatcherite papers ran stories of an alleged row over the Budget between Mrs Thatcher and her Chancellor, Nigel Lawson.

These particular reports did not quite have the authentic ring and look to me more like a pre-emptive strike by one or two in the No 10 entourage to claim credit for something in the Budget. Indeed, the stories ceased abruptly when the Prime Minister indignantly made clear that she did not want to play matters this way.

But this was before the reports had claimed that officials were investigating what, if any, power the title First Lord gave the Prime Minister over the Chancellor. My own brief investigation has been purely hypothetical and emphatically not based on any current events or rumours.

A concise answer is given in "The Treasury under Mrs Thatcher," a carefully-researched book by Sir Leo Pliatzky, a former Treasury Second Secretary (published tomorrow by Basil Blackwell). Pliatzky is sure that any suzerainty over Treasury affairs once given by the position First Lord, "has long ceased to be the case. The Chancellor of the Exchequer is the Minister in charge of the Treasury, just as much as the various Secretaries of State and other ministers are in charge of their departments."

What, however, would happen if the Prime Minister and Chancellor reached an impasse before the Budget, but the Chancellor did not offer his resignation and the Prime Minister, for good political reasons, chose not to ask for it?

Or take another issue. The Treasury has power under the 1946 Bank of England Act to give a directive to the Bank. This power has never been used; and the Bank accepts that it has, in the last resort, to follow the Treasury. But who is the Treasury if the Prime Minister as the titular First Lord, and the Chancellor as its working head, cannot agree?

Former Whitehall insiders shudder at the breakdown of civilised conduct assumed by these hypothetical questions. But they have no doubt that any such row would be resolved by the balance of political forces, and not, as one put it, "by some 14th century statute".

Yet it so happens that one relevant statute dates back only to 1978, the Interpretation Act which defines the Treasury as "The Commissioners of the Treasury". The latter now exercise the ancient office of Lord High Treasurer, which has been in continuous commission since 1714. The Commissioners consist of the First Lord, the Chancellor of the Exchequer and five Junior Lords, who are not normally Treasury Ministers at all but Government Whips. Sir Robert Walpole, who is normally regarded as the first Prime Minister, was also First Lord of the Treasury, a post occupied by most, but not all, of his successors. The last not to do so was Lord Salisbury, who left office in 1902. The Ministers of the Crown Act of 1937 and its successors provide for the salary and pension of the Prime Minister and First Lord and assume that the two posts are held by the same person.

Disputes between Prime Minister and Chancellor would not be settled by quaint anachronisms

The Junior Lords can and do sign Treasury orders as a formality. But the Treasury Board is often described – like the Board of Trade – as a "phantom board". Since 1856, no working meeting of the Board had taken place – until 1983, when Mrs Thatcher ceremonially reconvened it to mark the retirement of Sir Douglas Wass as Permanent Secretary and the appointment of Sir Peter Middleton as his successor.

These meetings were treated as a *jeu d'esprit*. But whatever serious linings there may be to Mrs Thatcher's jokes, no one to whom I spoke could even imagine that the Prime Minister would try to reconvene such a meeting and use the voting power of the junior whips to outvote the Chancellor without becoming a laughing-stock.

The accepted method of trying to resolve a dispute between the Prime Minister and a colleague is a meeting of the Cabinet or one of its committees. The peculiarity here is that the Prime Minister is the only Cabinet member normally acquainted with the whole Budget until the morning before – and Roy Jenkins tried to keep even Harold Wilson at arm's length.

But in the exceptional circumstances envisaged, a proper non-rubber-stamping Cabinet meeting could always be called. This indeed is what both Lord Blake, the distinguished historian, and Lord Rawlinson, a former Attorney-General, would recommend.

The one remotely relevant example of such an unresolved disagreement occurred in 1923, when the Chancellor, Stanley Baldwin (who was accompanied by Montagu Norman), negotiated an onerous War Debt settlement with the US which added an annual 4 per cent to the Budget and which went against the strongly-held public position of the Prime Minister, Bonar Law. Indeed, Baldwin disclosed the settlement to the press on arrival at Southampton. Even though Bonar Law was supported by experts such as Keynes and McKenna, nearly all the Cabinet backed Baldwin, partly on grounds of *fait accompli*. Law had to be talked out of a serious threat to resign himself.

Of course, any modern Prime Minister – let alone Mrs Thatcher – is in a far more powerful position than Bonar Law, who was in office for a mere 209 days. But her power in no way depends on the anachronism by which she is known as First Lord.

LETTERS

A quality workforce

From Mr Louis V. Gerstner, Jr.

Sir, I read with great interest your article on the Round Table of European Industrialists' urgent call for reform in education and training ("European education said to need urgent reform," February 23).

The quality of the work force is a vital competitive issue for both Europe and the US. Declining population trends and inadequate education and training are indeed threats to future industrial and economic growth. US and European business must become part of the solution to remedy this looming problem and must do so quickly.

Through productive partnerships with local education authorities, American Express has developed curriculum enhancement programs in the US and the UK.

The Travel and Tourism Programme was launched in the UK in 1986. This two-year course provides 14- to 16-year old students with an opportunity to increase their knowledge and skills in areas related to the tourism industry and, it better equips them to secure jobs when they finish school.

Through the programme, a GCSE curriculum was developed and received accreditation. Currently, 30 schools are offering the GCSE across the UK and the number is expected to rise to more than 150 next year. The travel and tourism programme is also supported by Trusthouse Forte, Crest Hotels, the British Travel Authority and the International Leisure Group.

In the US, we have developed a similar programme focused on the financial services called the Academy of Finance. To date, more than 1,300 students have enrolled in the programme. Of the 240 students that have graduated, 90 per cent have gone on to university, most in finance, accounting or economics. Perhaps more importantly, the teachers have found that many students who were at risk of dropping out of school have become much more motivated.

Companies can and must work together with schools to make investments in the future labour force that benefit the students, school and community as well as the firms involved. Co-operation, innovation and commitment will be the ingredients that determine the future quality of the work force both in the US and Europe.

Louis V. Gerstner Jr,
President,
American Express,
American Express Tower,
World Financial Centre,
New York, NY 10285

Advice for the public

From Mr Mark St Giles.

Sir, The announcement that the Halifax Building Society is proposing to tie to Standard Life for endowment business, along with the decisions of the Woolwich and the Leeds Permanent to tie respectively to Sun Alliance and Norwich Union, is the best news that independent financial intermediaries have had for months. It is another step in the polarisation of the distribution channels which has some way to go yet.

The despondency in the independent sector has been occasioned not so much by the principle of polarisation, but by the confusion which has reigned in the minds of the public. There is ample evidence to suggest that the public has no idea of the difference between tied and independent advice. But moves like the Halifax's will begin to make the public understand the distinction between "any colour as long as it is black" and the real choice which the consumers are accustomed to having in the purchase of most other goods and services.

It is up to the independent sector – supported by its own self-regulatory organisation, Financial Intermediaries Managers Brokers Regulatory Association, and by the continuing efforts of the Campaign for Independent Financial Advice – to clarity to customers that choice really does exist.

After all, the Financial Services Act was designed to protect investors and to clarify the somewhat murky channels through which financial advice was purveyed to the public. Its purpose will not be achieved if the public continues to be completely ignorant of its effect.

Mark St Giles,
Private Capital (Financial Services) Ltd,
5 Giltspur Street, EC1

Very creative accounting

From Mr Ian Brindle.

Sir, In my capacity as an auditor I write to congratulate your correspondent, Richard Waters, on his perceptive article on "branding" people (March 9) and to confirm that, in my opinion, a fairly true view of a value for your correspondent is, as he surmised, some £12.50 or 25 loaves of sliced white and no small fishes.

Your correspondent's calculation was, in the true spirit of brand accounting, somewhat spurious but is confirmed by my more precise methodology. The cover price of the FT is 45p and in today's issue there were some 45 journalists, including Mr Waters, who were afforded a byline. Thus he is worth 1p per day.

Assuming my profession produces enough nonsense on a constant basis (safe so far) we expect to see his name appearing five times a week (Saturdays are for the serious stuff) for the 50 weeks of the year your paper graces the tables of the boardrooms (real readers have two weeks of sun). This gives us a sum of £2.50 per annum for which we need a multiple. By now you will appreciate that the number five has a certain magic as shrewdly recognised by the International Accounting Standards Committee who want us to write off our intangibles over a five-year period. So apply a multiple of five and we get a value of £12.50.

Your correspondent must be congratulated on getting the right answer ahead of the accountancy profession. Still Waters run deep.

Ian Brindle,
Price Waterhouse,
32 London Bridge Street, SE1

Looks can be deceiving

From Ms Gabrielle Cox.

Sir, Mr John Moore (Letters, March 7) repeats an argument beloved of his colleagues in the Treasury: that real take-home pay at all multiples of average earnings has risen by over 20 per cent since 1978-79. He implies that this is the result of his Government's policy.

Mr Norman Lamont published an answer on May 3 1988 explaining the calculations which underlie such assertions. As well as adjusting for tax and National Insurance, they included figures for child benefit.

It is noteworthy that Mr Moore and the Treasury take 1978-79 as a base, rather than 1979-80 (the first year of Mrs Thatcher's Government). This enables them to include the 74 per cent increase in child benefit between April 1978 and April 1979.

Moreover, the use of the concept of average earnings and multiples thereof serve Mr Moore's cause but do not reflect the reality of family incomes. One reason for the rise in average incomes since 1979 is the disproportionately high increases in the upper income bands. While in 1979 the male average earnings figure was 108 per cent of the median, by 1988 it had risen to 114 per cent. Using average male earnings is a statistical sleight of hand which tells us nothing about the earnings of real individuals. It simply feeds the big increases of the highest earners through into implied increases for everyone.

In fact, over the period 1979-88, the lowest decile of male earnings fell from 66 per cent of the median to 59 per cent. Using the Treasury model but taking 1979-80 as a base and using earnings distribution figures rather than averages, by April 1987 the real take-home pay of the highest decile of non-manual earners had risen by 28.21 per cent, while for the lowest decile of manual earners it had fallen by 1.85 per cent.

The use of male full-time earnings also masks the shift in the whole earnings profile towards the lower end of the income scale, caused by the fall in full-time male employment and the rise in part-time and female employment. Many families which used to have a full-time male breadwinner will now have a part-time and/or female breadwinner.

Now Mr Moore's Social Security Act proposes that unemployed people should not be able to turn down a job because they pay is too low, and Mr Fowler has produced a paper arguing that wages councils should be abolished. How much more victimisation of the poor is society prepared to tolerate?

Gabrielle Cox,
Campaign Against Poverty,
47 Upper Lloyd Street,
Moss Side, Manchester

FINANCIAL TIMES
Monday March 13 1989

Roderick Oram on Wall Street

How to turn disasters into dollars

"EVERY ONCE in a while we really screw up. They get you good. They put your head in the sand and grind it round and around. You can hear them laughing up above."

Welcome to the bare-knuckle world of bankruptcies where investors like Mr Jay Goldsmith and his partner Mr Harry Freund fight other creditors, courts and management to extract gold from the dross of failed companies.

Twenty-four hours after Eastern Airlines filed for bankruptcy they are bubbling with enthusiasm in the Rockefeller Center office of Balfour Investors, their primary vehicle. But they are in two minds about one of the biggest, nastiest corporate catastrophes of the decade.

Old pros in the art of buying into bankrupt companies, they are disdainful of the hot new money Wall Street has poured into their niche over the past couple of years. "We think we're in a maniacal period in the pricing of these securities," said Mr Freund. "A lot of mistakes are going to be made."

Eastern's bonds and stock in Texas Air, its parent, rose when the stricken airline sought refuge in the courts. "It's unbelievable that distress is celebrated," he added.

Yet Mr Goldsmith is quick to rattle off some permutations for playing Eastern. His enthusiasm is infectious. Mr Freund can't help but joins in briefly until he remembers they are not alone. With a gentle swat and a quiet word he subdues his partner, as if to say "Enough already, Jay! You're giving the game away."

"We're hoping to find an entry point," Mr Freund says with a mischievous grin, closing the subject.

With a background in securities research, they formed their own firm 14 years ago as a small boutique advising other investors.

From the start "we were always interested in unusual corporate situations," Mr Goldsmith says. "Recovery is much less risky than growth." Yet, with the few investments that do go badly wrong, "it's an abyss," adds Mr Freund. "You don't know the downside. There's always the possibility you'll be ground down into the dirt."

They quickly evolved a complete strategy. They choose the class of bond which will give them the most muscle during a company's bankruptcy court proceedings. Their aim is to persuade the court and other creditors – sometimes the fights last for years – to turn their bonds into equity so they can gain control of the company, mastermind its reorganisation and profit from a recovery or takeover.

Balfour is among the pioneers but has been joined in recent years by similar operations in mainline investment banks and other firms. Last autumn alone, a flurry of new limited partnership recovery funds raised some $500m from pension funds and others wanting to play the field.

"Vulture funds" is the pejorative name detractors give to the likes of Balfour and other recovery partnerships. Mr Goldsmith and Mr Freund, though, consider it an honourable calling that has generated an annualised return on their money of some 40 per cent since they started. "We have no blots on our escutcheon," Mr Goldsmith says.

From their early days they have attracted investors from London: first Ackroyd & Smithers, then Singer and Friedlander and now the US leveraged buyout affiliate of Charterhouse Bank, part of the Royal Bank of Scotland. Charterhouse raised $58m, mostly in Europe, for Balfour's newest vehicle, Recovery Group, a limited partnership.

On Wall Street, Mr Freund and Mr Goldsmith are attracting a lot of attention for their astute handling of Publicker, a long-floundering distiller. They and a group of fellow investors paid $4m for 14 per cent of its equity in 1985, joined the board and sold all but one small operation.

Publicker then financed a small takeover by raising $30m in a junk bond issue. The company is about to sell the acquired business and with the profits and other monies generated make a $300m-$400m takeover.

Fortunately Publicker takes up a lot of their time because all the money sloshing around the bankruptcy business has left too few other profitable opportunities. Things will change soon, though.

All the hot, inexperienced money will take fright and flee, adds Mr Freund. "We and the few others who have been in this for years will find ourselves alone again."

FRENCH MUNICIPAL ELECTIONS

Boost for Rocard as polls shift left

By Paul Betts in Paris

THE French left consolidated its national electoral position in the first round of municipal elections last night with the right losing ground and the extreme right National Front suffering a major setback.

Early computer projections showed that the left-wing parties were expected to gain between 46 per cent and 47.7 per cent of the national vote in the municipal polls compared with 45.4 per cent in the municipal elections of 1983.

In contrast, the right, which had scored a victory over the Socialists in 1983, saw its support decline to about 50 per cent from 52.7 per cent.

The National Front's share of the vote appeared to have plunged to about 4 per cent, according to the first forecasts, but it appeared to have held up relatively well in its traditional bastions in the south, such as Marseilles.

The turnout yesterday in the country's 36,000 communes was better than expected, despite a record abstention rate for a municipal election. Computer projections showed between 26.5 per cent and 30 per cent of potential voters abstained yesterday compared with 21.6 per cent in the first round of the municipal elections in 1983 and 22.2 per cent in 1977. Some had feared an even higher abstention rate than the record yesterday.

In addition to a general shift towards the left, the Ecologists gained ground, according to early computer projections, confirming the growing role of the environmental lobby in France and rising public concern over environmental issues.

Both the good showing of the left and the higher-than-expected turnout is an important boost for the Socialist government of Mr Michel Rocard. The Socialists had been worried that recent strikes in the public sector and general disenchantment with the political establishment would show up at the polls.

One of the biggest shake-ups last night was in Lyons, the country's second largest city after Paris, where Mr Michel Noir, the former Gaullist foreign trade minister, appeared set to beat Mr Francisque Collomb, the veteran centrist UDF mayor of Lyons who was supported by Mr Raymond Barre, the former right-wing Prime Minister.

In Marseilles, Mr Robert Vigouroux, the outgoing Socialist mayor, appeared well placed to be reelected, although Mr Vigouroux was expelled by his party for deciding to run against the official candidate of the Socialist Party, Mr Michel Pezet.

Efforts renewed to end Angolan civil war

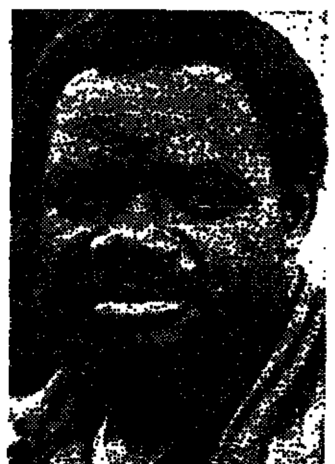
By Michael Holman, Africa Editor, in London

RENEWED efforts to end the 13-year civil war in Angola are expected to get under way in the wake of disclosures of a serious rift in the Unita rebel movement led by Mr Jonas Savimbi.

Prominent Unita members and supporters made public at the weekend their fear that Mr Pedro "Tito" Chingunji, the organisation's former foreign secretary, may have died after allegedly being tortured last November at Jamba, Unita's headquarters in southern Angola.

Western diplomats believe that the President Eduardo dos Santos of Angola will attempt to take advantage of the apparent split in Unita's ranks, and press for reconciliation talks with the anti-Savimbi faction.

The Angolan Government has offered an amnesty to Unita rebels and earlier this month floated the possibility of a regional summit, attended by its neighbours and other interested parties, at which reconciliation terms would be discussed.



Jonas Savimbi: disclosures of a serious rift in Unita

But government officials have made clear that while they would not rule out a broad "national front" which incorporated senior Unita officials, Mr Savimbi would not be welcome.

The allegations about Mr Chingunji, and charges that several senior members of Unita have been killed or burnt to death, were made by Mr Chingunji's nephew, Dinho, and Mr Sousa Jamba, a London-based Unita supporter, on a British television news programme.

Mr Fred Bridgland, author of a sympathetic biography of Mr Savimbi, said he believed the charges were "90 per cent" likely to be true.

The claims have been denied by Unita.

The development comes at a critical stage in the Angolan civil war.

The phased withdrawal of some 50,000 Cuban troops in Angola, who have been backing the dos Santos Government in the war against Unita, is getting under way as part of the US-brokered regional pact designed to bring independence to Namibia in November.

In return, South Africa has pledged to end its support of Unita, and has already withdrawn its forces from southern Angola.

Both parties in the Angolan conflict are thus subject to what US officials call mutual enfeeblement.

Although Washington continues to arm Unita (while on a much greater scale, the Soviet Union maintains military supplies to Luanda), US diplomats hope that the two sides will eventually be forced to the conference table.

● Mr Anatoly Gromyko, director of Moscow's Africa Institute, led a Soviet delegation taking part in three days of talks last week in a hotel near London with a group of South African academics.

The meeting, the latest in a number of contacts involving South African academics, church leaders, and opposition politicians stretching back over a year, forms part of the Soviet Union's reappraisal of policy towards Pretoria.

Moscow has been stressing the need for a negotiated settlement in South Africa.

UK futures brokers to protest at US access to trading records

By Nick Bunker in London

THE Securities and Investments Board, Britain's chief investor protection watchdog, faces strong protests from City of London institutions over proposals to give US authorities wide powers over British-based futures brokers and dealers.

In particular, the board has caused disquiet among London futures firms with what they fear is an agreement to give the US Commodity Futures Trading Commission the right to demand access to their trading records at 72 hours' notice where they have had dealings with US clients.

The controversy has prompted The Association of Futures Brokers and Dealers, the self-regulatory body, to postpone until next week a council meeting that was due to approve the SIB's proposals in London today.

Association council members are understood to have been unwilling to take a decision while many leading figures in the London futures markets were away in Boca Raton, Florida, this week for the Futures Industry Association convention.

Close observers say the SIB was talking to the US commission for most of last year about proposals for reciprocal agreements allowing regulators in the UK and US a measure of control over futures trading firms in each others' country.

The matter came to a head last Wednesday evening at an informal meeting in London attended by about 20 firms, mainly members of the London Metal Exchange and the London International Financial Futures Exchange. The meeting *debated their reaction* to the proposals the SIB has produced with the US commission.

According to one prominent London metal trader who was at the meeting, those present were "virtually unanimous" that the SIB had taken the wrong approach and made too many concessions to demands from US regulators.

Another senior metal exchange figure said: "Quite a lot of people feel the proposals, which seem to have been agreed between the SIB and the CFTC, appear to be weighted heavily towards satisfying the CFTC."

While the metal exchange does not object to the US commission being able to give full protection to private individuals who invest in London, it is worried that the proposals will inhibit its members in dealings with US professional investors and corporate clients. At least three elements of the SIB's proposals are understood to have worried London firms.

The first is the provision that in circumstances where *AFBD members are dealing* with US investors, the US commission should able to demand access at short notice to their books.

The second is a requirement for any disputes with US clients to be subject to arbitration in the US, under US law. Thirdly, some AFBD members have also been angered by provisions that would require them to keep separate accounts covering UK and US clients.

Hesse election vote indicates polarisation

Continued from Page 1

The result will come as a further heavy blow for the CDU, which has already been rocked by the Berlin results. The CDU's victory in Frankfurt in 1977 was widely seen as a harbinger for subsequent realignment in federal politics with the shift from to a CDU-liberal coalition under Mr Helmut Kohl.

The party's strategists will now be wondering what conclusions to draw. In Frankfurt especially, the CDU's shift to a markedly more anit-immigrant campaign after the Berlin elections appears to have backfired, drawing right-wing support to the NPD while putting off many centrist voters.

Frankfurt is now set to be run by a coalition between the Social Democratic Party (SPD), under its candidate for mayor, Mr Volker Hauff, and the Greens.

The SPD raised its share of the city vote by 1.3 per cent to 39.9 per cent, while the Greens increased by 1.5 per cent to 9.5 per cent, giving the two par*ties a total of 49 seats in the* city assembly against 37 for the CDU.

Global environmental agency planned

Continued from Page 1

environment. The proposals were left nebulous to encourage more countries to sign. There are still doubts about whether a new body can actually be established. Many more countries will have to join if it is to be viable.

A working party will be set up in May to carry the proposals forward. Signatories will attempt to have them debated in the UN General Assembly in September, and the countries have pledged to work within the UN framework.

The Hague declaration's key clause says the new institutional authority should develop instruments and define standards to enhance or guarantee the protection of the atmosphere and monitor compliance. Its decisions would be subject to the control of the International Court.

The organisation would also research climatic change. It would have to be "granted appropriate information on request" from member states and be given "access to technology" for pollution control. Decisions could be taken by simple majority.

The declaration calls for help from industrialised nations to help developing countries in pollution abatement.

Mrs Brundtland called the declaration unprecedented and radical. "We must define standards and ensure compliance," she said. "Today we are starting a new era in international co-operation."

President François Mitterrand of France said the organisation would mean some ceding of national sovereignty "but it is not giving up something, it is moving to create something."

The plan could be hampered by the absence of important countries from the Hague. Neither the Soviet Union nor the US were invited, so as to avoid superpower rivalry. Nor was China, which is heavily dependent on fossil fuels.

The meeting was also not attended by Mrs Margaret Thatcher, Britain's Prime Minister, who regards the formation of a new organisation as causing unnecessary bureaucracy. She says the present bodies – notably Unep and the Inter-Governmental Panel on Climate Change – are sufficient.

Within the European Community, Belgium and Greece were angry at not being invited, and the European Commission was alarmed at being bypassed.

However, the fact that so many heads of government were present gives the initiative considerable impetus.

WORLD WEATHER

Readings at mid-day yesterday

C=Cloudy Dr=Drizzle F=Fair Fg=Fog H=Hail R=Rain S=Sun Sl=Sleet Sn=Snow T=Thunder

Monetary union report

Continued from Page 1

unchallenged, Mr Robin Leigh-Pemberton, Governor of the Bank of England, could find it difficult to sign the final report on behalf of the UK.

The West German position was underlined on Friday by Mr Helmut Schlesinger, the Bundesbank deputy president, who said: "The final goal of an economic and currency union cannot be reached in one fell swoop but will need patient and lengthy work to reduce the existing divergences in economic development and prepare the ground for further integration."

Because Mr Delors is anxious for his committee to reach an agreed report, he may respond to calls from other committee members to draft the first section of the report in a more neutral manner in time for the April meeting.

However, the commission president is unlikely to revise his view that the Community must move towards economic and monetary union, first through greater co-operation in the framework of existing EC institutions such as the European Monetary System and later by a change to the EC Treaties.

THE LEX COLUMN

Chicago waits for the Feds to fire

When the elder statesmen of Chicago's futures industry get down to business at the National Futures Industry annual jamboree in Florida this week, it will not be just their golf scores they are working on. Their dominant position in the world's futures industry is under attack. This is certainly not the first time it has happened, but the threats this time are more serious than last year's unsuccessful attempt to pin the blame for the 1987 stock market crash on the futures markets. Chicago will survive, but its free-wheeling, golden years in the futures business may well be coming to an end.

The Chicago Board of Trade, the biggest and more conservative of the two commodities exchanges, and its younger and more aggressive rival – the Chicago Mercantile – have long been misunderstood by the rest of the financial community. They see themselves as among the most innovative parts of the world's financial system. Others, watching the huge volumes of speculative money surging through the trading pits, regard Chicago as the Wild West of the financial industry – a place where the rule of law has yet to be properly enforced. The truth lies somewhere in between.

Market share

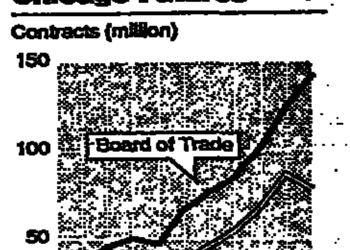
The phenomenal success of the two Chicago exchanges in enabling the rest of the financial world to hedge their risk exposures should not be underestimated. They transact over half the world's futures business and their combined volumes have risen more than five-fold over the past decade. Turnover in the Board of Trade's US treasury bond pit was more than 7 trillion dollars last year and, despite a sharp drop in volume, business in the Merc's S&P500 contract still exceeded the 1.4 trillion dollar trading volume in stocks on the New York Stock Exchange.

However, Chicago's share of the global futures market has been shrinking for several years now, and given the increased competition from new rivals in Japan and Europe, it is likely to continue to decline. Meanwhile, revelations of a two-year-old FBI probe into alleged fraud on the exchanges threaten the very heart of the industry. No charges have yet been laid, but if they highlight serious abuses in the open-outcry trading system – the key to the markets' huge liquidity – Chicago's basic advantage over its rivals could be seriously undermined.

The exchanges' ability to regulate themselves has always been taken for granted, which is part of the problem. Trading practices which have long since disappeared from the securities markets still flourish in Chicago and everyone is waiting to see which, if any, established practices are branded as criminal acts. Dual trading, where brokers can trade for both themselves and their customers, is a case in point. It can boost liquidity in small contracts, but there are obvious conflicts of interest which the exchanges have been slow to stamp out. Indeed, it would be surprising if the FBI investigation did not highlight these potential abuses, such as trading ahead of a customer's order or shifting unprofitable trades into clients' accounts.

Chicago Futures

Contracts (million)



Liquid markets

Provided the FBI investigation does not uncover evidence of fraud on a massive scale, most big institutional users seem prepared to accept the various abuses as a small price to pay for continued access to liquid markets. Indeed, it would be near incredible to find that traders had been able to manipulate prices in a market as huge as the US treasury bond pit. However, while professional users of the commodity markets may not be unduly *perturbed by the allegations,* congressional reaction is far less predictable.

The problem is compounded by the fact that the powers of the Commodity Futures Trading Commission, the industry regulator, have to be reconfirmed this year and Congress itself is uncomfortably aware that many of its members have relied heavily on campaign contributions from the exchanges. Given the rapid growth in the size of the industry and its cosy relations with its regulator, there must be a suspicion that not enough has been spent on trying to police abuses. The CFTC's budget is about a quarter of the size of the Securities and Exchange Commission's, and the NYSE's regulatory staff and surveillance budget dwarfs the combined totals of the two Chicago exchanges. Over the past five years the two exchanges have *levied less than $5m in fines on* their members. This could mean that abuses are few and far between, but the impression, which is strengthened by recent belated steps to toughen exchange rules, is that supervision in the past has been too lax.

The danger now is that the CFTC, in an effort to prove its worth, will overreact and force up the cost, and slow down the pace, of doing business on the Chicago markets. The regulator's self-interest cannot always be equated with the public interest and the Board of Trade warned only last week that Congressional proposals for tougher surveillance of the futures market would have a significant adverse impact on its viability. The exchanges are right to be worried about excessive regulation but the weakness of their case is that despite substantial improvements in computer technology, the open-outcry system of trading does not lend itself to close surveillance. Even under the present system where all trades have to be reported within one minute (it was 30 minutes until 1988), this time frame could still include hundreds of trades.

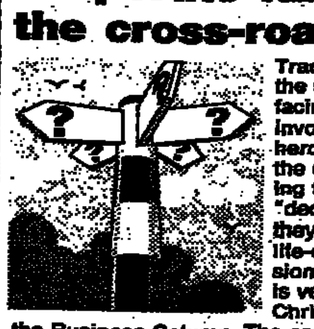
Global competition

Concern about the adequacy of the exchanges' audit trails, which are designed to pinpoint trading abuses, is one of the main reasons why there is growing pressure for the introduction of some form of automated trading system to prevent human errors/abuses in trade reporting. The Chicago Mercantile's Globex system will begin operating later this year and the Board of Trade will announce details of a rival system later this week.

Initially, both will operate only when the local Chicago open-outcry markets are closed and are aimed at preventing further erosion of Chicago's share of the international futures markets. But the systems could remove many of the current regulatory concerns and if they could ever duplicate the sort of liquidity now found in the Chicago trading pits it could mean the end of the open-outcry system. However, one has only to look at the recent problems of the London Stock Exchange's screen-based trading system to sense that this could be a very long time in happening.

INSIDE

Corporate fantasy at the cross-roads



Tradition has it that the strategic choices facing companies involve managerial heroes standing at the cross-roads, nailing themselves to "decision trees," as they make inexorable life-or-death decisions. But the reality is very different, says Christopher Lorenz in the Business Column. The essence of effective management is the reconciliation of opposites. Page 40

Jobs data hit slowdown theories

As Wall Street began grabbing at the first straws of an economic slowdown, the latest US jobs data have turned out much stronger than expected. Bonds prices slumped again as analysts debated when, not if, the markets would face another tightening of monetary policy by the Federal Reserve. Page 26

Tossed by an Iberian bull

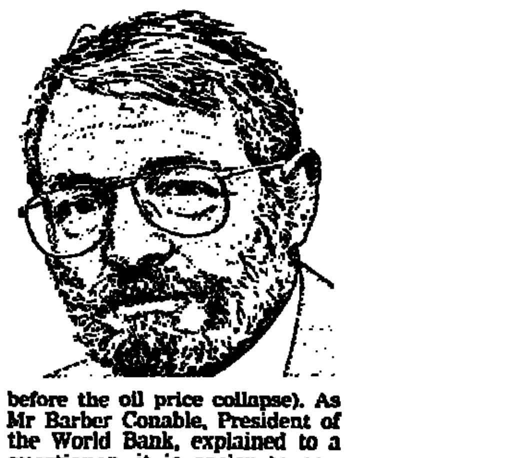
A revision next September to the weightings of the currencies making up the Ecu basket is hanging over the Ecu-denominated sector of the Eurobond market. In particular, the peseta and escudo are likely to be included for the first time. Both are relatively high-yielding and volatile, so their inclusion is expected to cause bond yields to rise. Page 25

Threat to RTZ's golden hopes

All is not well with RTZ's plan to buy British Petroleum's mineral assets for $4.3bn. The smooth completion of the deal is being threatened by a dispute looming over the Lihir island gold project in Papua New Guinea. Lihir, possibly the largest ore body discovered outside South Africa this century, may be worth over $1bn and will transform RTZ into one of the world's leading gold producers when its production is running at 850,000 troy ounces of gold a year by the mid-1990s. Page 27

Mr Brady's radical-sounding presentation

Reaction to US hints on debt has been unenthusiastic, says **Anthony Harris** in Washington



Mr Nicholas Brady's speech on developing country debt, at a conference organised by the Bretton Woods Committee last Friday, lived up to its advance billing – in every sense, unfortunately.

Early in the week there were signals about an important debt initiative to come; in the middle of the week, this idea was quashed by the White House, a briefing evidently designed partly to damp the wild expectations which the first rumours had aroused in Latin America.

On Friday Mr Brady spoke: he was radical in language, since he spoke of the need for debt reduction, which has previously been a forbidden word in Washington (though he avoided the still more radical word, "forgiveness").

The general aim was clear: banks would be encouraged to reduce their claims for principal or interest in return for greater security on their reduced assets. Given adequate resources, it would be the answer to the debtors' prayer; but Mr Brady was studiedly vague about the scale of what he was proposing, and the detail of how it might work.

Late in the day, the White House added its gloss: the President could not at this stage endorse what his Secretary of the Treasury had said, because the details of any ultimate proposal were still being worked out. In the Bush Administration the "working out of detail" seems to mean that President Bush will announce the peace terms when the civil war inside his own Administration is over.

This might be taken as an amusing example of the new style, which tries to stave off serious problems with kind words rather than specifics, were the background not so grave. It was put in one word by Mr William Rogers, one of Washington's powerful political lawyers, who represents several Latin American countries.

In a passionate five-minute speech which became the second most-quoted of the day, he said the present mood in the subcontinent could be summed up simply as desperation. Listing the familiar political threats in most of the main countries, he said that economic orthodoxy had been adopted only "for the moment," and added: "I cannot recall a more ominous moment for the hemisphere since 1982." A new US strategy seemed to offer the only hope, but it must be radical and adequate. "If the debtors see nothing substantive, the reaction is going to be very negative," he concluded.

We already have the first reactions, and they are not encouraging. Mr Jesus Silva de Herzog, who spent five battering years as chief Mexican debt negotiator, was at the conference. He welcomed the new language, but described the substance as "a very modest first step." In Caracas President Perez of Venezuela, who has been contending with riots against orthodox pricing, used a blunter word: "Timid."

The private verdicts of some of the people at the conference were even blunter. The harshest came from some of the practical men. "A disaster," said one official, explaining that the prospect of debt reduction, however vague, will stop the present adjustment process dead in its tracks. And there was an additional warning: "No-one will pay any interest ahead of the new negotiations; and they can only start when all the details are in place."

A banker saw a grimmer possibility. "Brady has opened Pandora's box," he told me. "The US has now admitted that the debtors cannot pay, but has no adequate answer. Unless something happens very quickly, it is an open invitation to default."

If the crisis is to be resolved, the need is to cut developing country debt service by a third (the estimate offered by Mr William Seidman as a bank regulators' guideline), or as much as two thirds (the conclusion of the latest Mexican study of conditions for resumed growth). This is the equivalent of $100bn for Latin America alone.

The resources the IMF and the Bank can deploy for debt relief are much smaller. What they effectively offer, through temporary guarantees ("debt enhancement") is to buy a little more time. Lending banks and their governments will have to take the real hit.

Wholehearted support from Tokyo – where the Brady plan looks very like a mildly Americanised Miyazawa plan – promises that when the details are in place, the scheme can be adequately backed. Indeed, this appears to be a US-Japanese plan, rather than "some ideas Mr Brady wanted to throw into the ring," which is the unconvincing official description. If two countries are engaged, however, quick decisions will be even harder to take.

Decisions are needed not only to fill the gaps in the Brady plan, but because even in its present vague form it may be unworkable in some important respects. Mr Brady recognises the need for speed, and his main proposal for quick decisions was to negotiate a widespread, temporary waiver of the sharing and negative pledge conditions which figure in all multi-bank loans. This would make it easier for debtors to negotiate with lead banks.

These provisions ensure that any losses of debt service will be shared among all lenders, and that no borrower will pay for any debt relief or buy-backs without specific waivers. These are the basic safeguards of lending banks, and the bankers at the conference thought it would be very hard to persuade the banks to waive these safeguards ahead of negotiations.

Secondly, Mr Brady repeatedly stressed the central importance of attracting back the flight capital which is the counterpart of so much LDC debt, especially in Latin America – official borrowing to finance private funk. No one argues with the accounting identity; but many of his hearers suspected that Mr Brady was hoping that the rich elite in the debtor countries could be persuaded to pay off a lot of the debt by bringing their funds home.

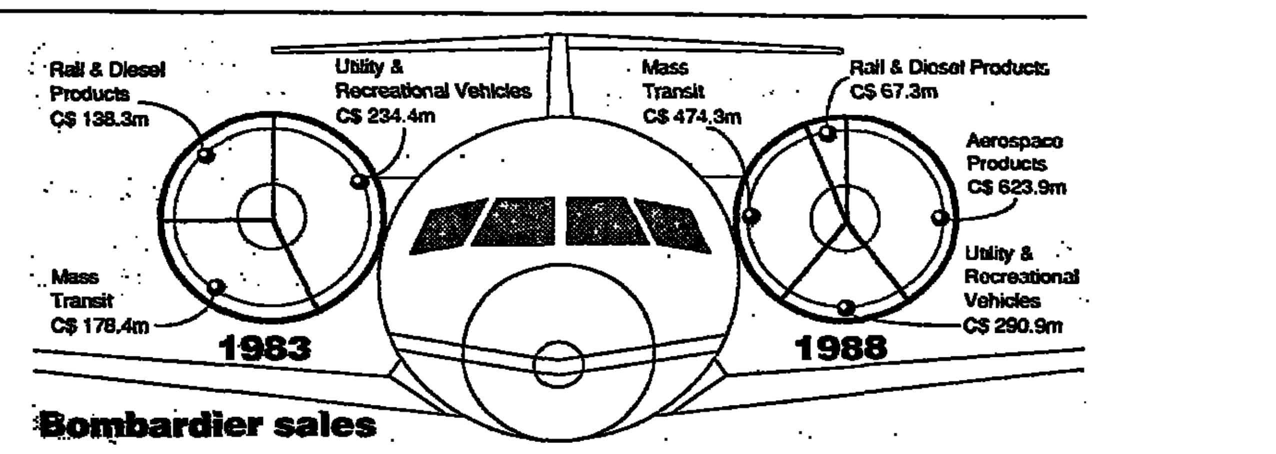
Everyone I met who had direct experience of LDC investment said that this would be futile. Flight capital returns home only after the problem is thought to be solved (as it did to Mexico for an interval before the oil price collapse). As Mr Barber Conable, President of the World Bank, explained to a questioner, it is easier to persuade foreign investors to back LDC enterprises than it is to recruit their own citizens.

Given these dangers, why did Mr Brady adopt the risky course of premature disclosure? The explanation is that faced with the riots in Caracas, and the fact that he has soon to make a debt report to Congress under the omnibus Trade Act, he felt he had to say something showing progress.

Whatever his motives, the result is to make the negotiations leading to a debt relief scheme more urgent than ever. If his speech brings agreement on an effective scheme in time to meet the crisis, Mr Brady will get credit for a Machiavellian skill in political management; only historians will argue about whether he deserves it.

Bombardier maps a flight path from Canada into Europe

David Owen on a company eyeing Short Brothers



Bombardier sales

First it made snowmobiles. Then came a move into the mass transit market, including making carriages for the New York subway. But it is only in the last few years that Bombardier, the Canadian company which has emerged as a suitor for Short Brothers, the Belfast aerospace group, has entered the tough world of aircraft manufacturing.

It did so just over three years ago when Mr Laurent Beaudoin, the group's long-time chief executive, decided to enter the bidding for Canadair, a C$450m (US$376m) aircraft manufacturer. And there are very strong parallels between that deal and the current situation with Shorts.

Canadair, like Shorts, was being sold by a Conservative government, having been taken into state control to stave off closure in 1976. As with Shorts, the government chipped in to make the company saleable by in effect assuming a chunk of its debt. And as with Shorts, political considerations appeared to work in favour of the Bombardier bid.

In the case of Canadair, the lure was Ottawa's desire to sell to a domestic buyer, following criticism of an earlier deal hatched with Boeing for Toronto-based de Havilland. With Shorts, it is the UK Government's insistence that the business be sold as a unit. It is thought a rival GEC/Fokker joint venture would want to split it into aerospace and torpedo-making operations. A third contender is MBB of West Germany.

Although a relative newcomer to aerospace, family-controlled Bombardier has become entrenched in the sector, one of four areas on which it is staking its future.

Since acquiring Canadair, the group has won (controversially) a large maintenance contract for Canada's CF-18 fighter fleet and a C$1.2bn contract to design and make Airbus A330 and A340 components. In the year ended January 31, 1988, aerospace products accounted for 43 per cent of revenues.

Canadair afforded a somewhat risky means of diversifying from a mass transit sector poised to shrink, upon the completion of one huge contract, and a steady but mature snowmobile business.

In contrast, Shorts appears to provide an attractive avenue for developing a now flourishing operation. Besides a chance to expand its product range, there are two reasons behind Shorts' allure for Bombardier.

First, the company would give the Canadians a toehold in both aerospace and defence in the European market. The group established just such a beachhead in mass transit a year ago by acquiring a majority stake in BN, the Belgian rolling stock manufacturer. This has given it involvement in such high-profile projects as the London docklands light railway and France's TGV high-speed train.

In addition, Shorts and Bombardier share an area of common endeavour in their desire to develop a 50-seat short-haul jet. If they joined forces, the thinking is, the success of one such aircraft would be assured.

Bombardier's plans involve an adapted version of its Challenger executive jet. This would avoid the huge costs associated with the development of an entirely new aircraft such as Shorts' putative FJX. Even with Shorts under its wing, it is uncertain whether Bombardier would have the necessary critical mass to develop an aircraft from scratch. The Challenger was funded exclusively by the Canadian government.

Bombardier has been delaying the formal go-ahead for its so-called Regional Jet until 50 firm orders have been received. The company hopes to attain this by the end of its first quarter.

Bombardier's tack with Canadair has been to instil an entrepreneurial spirit into an organisation once plagued by excessive bureaucracy. "We try to push decision-making to the lowest possible level," says Mr André Bombardier, vice president and a member of the founding family. "That is why we break the organisation up into the smallest possible segments."

Under a restructuring programme effected last year, Canadair's businesses were distributed between two Bombardier units: aerospace and defence. Besides the Challenger, Canadair products include the CL-215 amphibious aircraft and a string of airborne surveillance drones.

The three remaining units comprise financial services (providing inventory financing to dealers), motorised consumer products (snowmobiles and a recently-relaunched watercraft), and transportation.

Though transportation revenues fell sharply in the year just ended following the completion of a C$1bn contract for New York subway cars, the company has positioned itself for the long term by acquiring the designs of all Budd and Pullman vehicles. Some 85 per cent of vehicles operating in North America are of one or other design. The company is in the process of selling its disappointing rail and diesel business to General Electric Canada.

The restructuring was partly motivated by the increasingly hands-off management of Mr Beaudoin, who underwent major heart surgery about a year ago. Day-to-day operations are increasingly in the hands of Mr Raymond Royer, the company's president.

Mr Beaudoin, 51, an accountant with a fondness for horses and fox-hunting, has received many plaudits for his management during more than 20 years at the helm. His style has been characterised by a preparedness to move in unexpected directions. The Canadair gambit was preceded 13 years earlier by a lurch into mass transit (to update the Montreal subway ahead of the financially disastrous 1976 Olympics) when snowmobile sales plunged after the first oil shock.

Mr Beaudoin represents the second generation of the founding family, having married the late Armand Bombardier's daughter while attending business school.

Economic Notebook

A test of forecasting prowess

TOMORROW'S Budget will be an occasion not just for an airing of the Government's fiscal policy but also of its forecasting prowess.

With uncharacteristic modesty, Mr Nigel Lawson, the Chancellor, appears an unwilling player in the market for economic predictions. If it was not for the 1975 Industry Act, which obliges the Treasury to publish forecasts twice a year, he would probably be happy just saying that the economy was on course for a year of growth and lower inflation – and leave out the numbers.

Instead he will have to compete with numerous academic forecasting groups, commercial forecasters and City securities houses in the imprecise art of reading economic tea-leaves.

It would be hard, Mr Lawson might reflect, to find a market in which supply outstripped apparent demand by such a wide margin. Since the 1970s, the number of UK forecasting groups has exploded.

The problem is that the consumer of economic forecasts still faces relatively little choice. Forecasters have an annoying habit of producing remarkably similar predictions, even if they are using models based on different assumptions or theoretical reasoning.

This consensus-itis might reflect a lack of courage. City economists in particular are unwilling to stick their heads too far above the parapet through fear of spoiling their bosses' dignitaries. Keeping forecasts in line with the Treasury's means they are unlikely to be dubbed irresponsible.

A kinder explanation is that the poor quality of economic statistics has made even what happened in the past difficult to judge. The understandable response of forecasters is to play safe.

Nor does it seem that forecasting accuracy has improved dramatically in the past decade.

Last year's performances were far from impressive with most groups, public and private, underestimating the strength of economic growth, inflation and the current account deficit.

Back in 1986, Sir Terence Burns, the Chancellor's chief economic adviser, published a study of Treasury forecasting since the early 1970s. He found little, if any improvement in the accuracy of gross domestic product and retail price inflation forecasts looking one year ahead. But encouragingly there were signs of increased precision over a two-year timescale.

The over abundance of less-than-perfect forecasts should not, however, be an excuse for Mr Lawson. Exercises in model building help increase understanding of how the economy works and predictions provide some guide for the public and private sectors.

Moreover the Treasury has several advantages over other groups. It has a large, experienced team of economists, a highly regarded and often-copied model of the economy plus proximity to the official sources of economic statistics. If anyone is to get it right, it should be the Treasury.

Liquidity

The steep fall in the liquidity of UK companies through 1988 has received little attention but could be flashing warning signals to those hoping for strong investment growth in the year ahead.

There is a case for arguing that the liquidity of companies is a determinant of investment spending. Assets such as cash, government securities, bank deposits and other marketable securities can be used to take advantage swiftly of unexpected, once-and-for-all growth opportunities.

Statistics on the liquidity of large UK companies, showing total current assets as a percentage of total current liabilities, are compiled by the Department of Trade and Industry. Latest figures show a ratio of 76 per cent in the fourth quarter of 1988 compared with 117 per cent in the corresponding period a year before.

A major factor behind the fall has been the high level of cash expenditure on acquisitions since the October 1987 stockmarket crash.

Funding investment spending out of liquid assets offers two main advantages over other forms of finance.

Firstly, transactions costs are low. Debt or equity issues can be risky and expensive while borrowing means paying high interest rates. Boosting investment spending by reducing the proportion of earnings paid out as dividends can send wrong signals to shareholders.

Secondly, by definition current assets are available more or less immediately to take advantage of investment projects. The success of debt and equity issues is sensitive to the time of launch.

Of course a fall in the liquidity ratio will not automatically lead to a slowing in investment growth if other factors are more important. The theory also assumes investment decisions are determined to at least some extent by a company's financing policy.

Worryingly, however, the last time the DTI's liquidity ratio fell so low and so steeply was in the recession years of 1981 and 1982.

Ralph Atkins

THIS WEEK

MR NIGEL Lawson, the Chancellor, presents his sixth Budget tomorrow setting out the Treasury's tax plans and economic policy for the year ahead.

Financial markets will be watching the tightness of fiscal policy and looking for clues about interest rate and exchange rate policies.

The Budget comes amid a stream of economic statistics. In particular, US merchandise trade figures for January on Wednesday will highlight the scale of world trade imbalances and could influence dollar trading.

The consensus of analysts' forecasts, compiled by MMS International, the financial research company, is for a deficit of $9.75bn (£5.68bn) on a customs imports basis.

Other US statistics include the producer prices index for February, released on Friday. The consensus is for a rise of 0.4 per cent.

Industrial production figures for February on Thursday will provide a fitness check on US industry. Analysts expect a rise of 0.2 per cent and a utilisation rate of 84.4 per cent respectively. Retail sales figures for February released tomorrow will show the strength of consumer spending. A 0.4 per cent rise is expected.

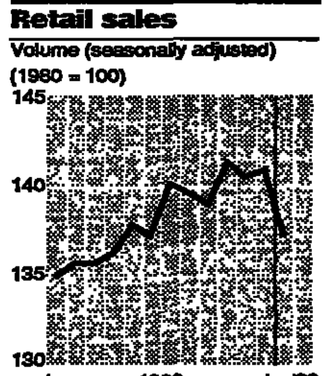
In the UK, today's provisional retail sales figures for February will show whether the slowdown in consumer spending has continued. The consensus is for a 0.4 per cent rise/fall.

Also today, producer price indices for February will show if strong growth in manufacturers' output prices has continued. A rise of 0.2 per cent in input prices and 0.4 per cent rise in output prices is expected.

Thursday's labour market statistics could trigger fresh fears of wage pressures and labour supply shortages. Average earnings are expected to have been growing at an annual rate of 9 per cent in January.

Retail sales

Volume (seasonally adjusted)
(1980 = 100)



In West Germany, the Bundesbank council meets on Thursday.

Japanese merchandise trade figures for February are due tomorrow and a further expansion is expected in the surplus. Money supply figures for February are due on Friday, are likely to show a decline in growth from the 10 per cent rate recorded last month.

Other events and statistics this week (with MMS International consensus in brackets) include:

Today Group of 10 central bank governors meet in Basle. European finance ministers meet in Brussels.

Tomorrow Delors committee on European economic and monetary union meets in Basle. Japanese February wholesale prices.

Wednesday US manufacturing inventories and sales in January.

Thursday UK industrial production in January (0.1 per cent rise). Public sector borrowing requirement (£930m surplus). Unemployment (fall of 40,000). US housing starts for February (1.55m). Australian February balance of payments.

Friday UK provisional gross domestic product in fourth quarter 1988 (0.4 per cent rise).

UK COMPANY NEWS

Parkdale £15m leisure expansion

By John Ridding

PARKDALE HOLDINGS, the property and leisure group, is to pay up to £15.3m for Select Country Hotels, a private company which operates five luxury hotels and manages another four.

The acquisition reflects Parkdale's strategy of diversifying away from reliance on its property development business and towards a greater emphasis on leisure facilities.

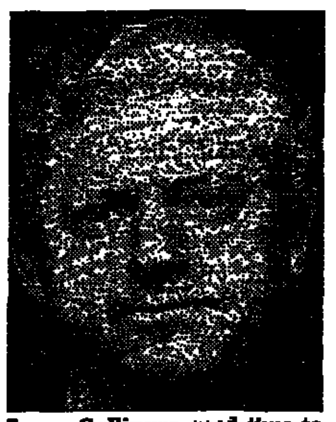
Mr Robert Breare, Parkdale's chief executive, said "the merger of Select's hotel portfolio with our own gives us outstanding coverage of the quality hotel business."

Select's non-executive chairman is Mr James Gulliver, the former chairman of the retailing group Argyle. Mr Gulliver said that having successfully developed the company's hotels, and given the high costs currently involved in extending the business that it was a good time to sell.

Last month, Mr Gulliver and his associates sold their stake in Jacksons Bourne End, abandoning their attempts to turn the shoe components and property company into a broadly-based leisure group.

Taken together, the sales suggest that Mr Gulliver is moving away from leisure and may focus more attention on his larger quoted investments such as Lowndes Queensway, which bought the Harris Queensway retail group last summer.

In the Select deal, an initial consideration of £14.3m will be met through a £322,000 cash payment and the issue of 17.6m new Parkdale shares. An additional £850,000 in cash may follow depending on Select's asset position and on the successful completion of the purchase of a hotel development site.



James Gulliver: good time to sell

Weatheralls have valued the hotels owned by Select at £17.75m, and on this basis — but deducting group debt — net assets are put at about £13.8m.

The majority of the new shares, around 14m, will be offered to existing shareholders in an 11-for-15 rights issue at 80p. Most of the remainder will be placed with a number of Parkdale's institutional investors and the balance, 660,000, will be retained by one of Select's directors. On Friday, the shares closed 2p lower at 100p.

The deal has been structured in this way to limit the exposure of Schroders, which is underwriting the issue. Had it been larger, Schroders would have been underwriting over 30 per cent of Parkdale's enlarged share capital and could, in theory, be left in the position of having to make a formal bid if it flopped.

ABF dispute with Berisford takes a new turn

By John Ridding

THE DISPUTE between Associated British Foods and Berisford International concerning the latter's indirect involvement in a bid for US-based Universal Foods took another turn yesterday with a statement from ABF quoting extracts from documents submitted to the Securities and Exchange Commission.

ABF said that, according to these extracts, the Stock Exchange had determined that Berisford's total current contribution to the US bid was $195m (£113m), not the $125m originally claimed.

This represented 24 per cent of Berisford's net assets, just short of the proportion which would require a shareholders' vote, as ABF has been seeking.

ABF, which owns 24 per cent of Berisford, also said the Stock Exchange had ordered a change in a provision which the former had described as a "poison pill."

This had stated that if three named men ceased to be directors of Berisford, then the company would have to sell at cost its share of a partnership which has a significant stake in the bid vehicle, High Voltage Engineering.

But according to ABF, the Stock Exchange has now required that the sale be at market value if the provision is triggered.

ABF said Berisford had also confirmed to the Stock Exchange that its financial exposure to lenders to High Voltage Engineering would not exceed $37m (£21.4m).

Berisford has stated that it has not made concessions to avoid a vote.

Sale Tilney profits slide to £6.28m

SALE TILNEY, the holding company with interests in manufacturing, trading, insurance services and financial services, saw pre-tax profits slide from £7.9m to £6.28m in the year to November 30.

The company attributed the downturn to adverse market conditions in the financial services division, which achieved profits of only £151,000, against £1.32m previously, and additional transfers to the insurance reserve fund.

The technology division also suffered a decline, from £8.19m to £4.61m, though the food businesses increased profits to £1.08m (£319,000). Insurance grew to £436,000 (£74,000).

Group turnover rose to £85.1m (£76.83m) and, after tax of £2.1m (£2.58m), earnings were down at 15p (21p) — figures for 1987 have been restated on a merger accounting basis, to include the results of Spraybake, the paint spray booth supplier to the automotive industry acquired last August for £3.5m.

A maintained final dividend of 6p has been proposed, to make 10.5p (10p) for the year.

In addition to Spraybake, the company has acquired two food businesses and another engineering company since August. The company said that they were well established in their fields and were expected to contribute strongly to profits in the current year.

Charterhall acquires a small stake in Pittard

By Nikki Tait

PITTARD GARNAR, the leather group, yesterday confirmed that Mr Russell Goward's Charterhall group had acquired a small, non-disclosable stake in the company.

However, it said the interest was built up almost six months ago — shortly before and then shortly after rival leather company, Strong and Fisher, mounted a hostile £41m bid for Pittard.

News of the stake coincided with delivery of the Monopolies and Merger Commission report on the Pittard Garnar situation to the Department of Trade and Industry. The MMC was looking into two matters: first, the implications of any bid by Strong and Fisher, and second, whether Hillsdown Holdings, which has a 16.6 per cent stake in Pittard, should be permitted to increase its interest if it wished.

The deadline set on the MMC inquiries was March 12, and the report was understood to have been delivered last Friday.

The Strong and Fisher bid lapsed in the light of the MMC inquiry. However, its original proposals had envisaged slotting Pittard's gloving and clothing leather interests in with its own clothing leather business, while its target's shoe leather operations would have been sold on.

Charterhall, meanwhile, is an investment company built up by Mr Goward, an Australian. It takes in some footwear retailing interests, put together through the acquisition of Allebone at the end of 1987 and Lennards in August last year. These are estimated to have contributed slightly less than £5m to an interim pre-tax profit of £5.76m in the period to end-December.

Pittard said yesterday that Mr Goward had been an investor in the group before, buying a small stake through his master company, Westmex, in late 1986, but selling again in early-1987.

According to Pittard, the current stake comprises direct ownership of 200,000 shares. A further 600,000 are owned by Eurovast, a Hong Kong company. Pittard said it had "very good reason" for thinking that these may be connected to Mr Goward. If so, the combined holding would amount to about 3.7 per cent of the leather company's equity.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Malacca Fund (Cayman) Ptg. shs. (Section: Trusts, Finance, Land).

Occidental Petroleum Corporation (Oils).

Whitbread Investment Company (Investment Trusts).

French group to buy 29.9% TMD stake

By Andrew Hill

CARAT ESPACE, a French media buying group, is to acquire 29.9 per cent of TMD Advertising Holdings, the UK media buyer, for about £6.7m in cash, adding to a growing network of cross-holdings in pan-European media services.

WCRS, the British advertising and communications group, bought half of the French group's parent company last May. In turn, Carat owns Media-Europe, a Spanish media buyer, and 49 per cent of Riemstra Media-Services, a German group.

Mr David Reich, TMD's chairman, said: "We are a decent-sized domestic player, but before this deal we had no ability to do anything on the international front."

Carat initially wanted to buy 50 or 100 per cent of TMD, which is quoted on the Unlisted Securities Market. It has guaranteed not to mount a full bid for TMD within 12 months.

The UK group, which is involved in the planning, research and buying of advertising space, said that TMD would be unlikely to welcome a full offer at the end of that period.

Carat will acquire the TMD shares through a tender offer, a subscription for new shares and the purchase of some of the shares issued on Friday for TMD's acquisition of Outdoor Life, a poster buyer, which acts as an intermediary between clients or their advertising agencies, and the owners of poster sites.

TMD is paying an initial £1.7m in shares for Outdoor Life, with a further payment of up to £1.8m dependent on the after-tax profits of the company up to 1992.

Carat will buy its TMD shares at 280p each, compared with Friday's closing price of 252p, up from 231p.

Last week WCRS announced that it had nearly doubled its interim pre-tax profits, partly because of the link with Carat.

Lower demand from City trims Fairway to £0.46m

FAIRWAY (London), a USM-quoted supplier of business and computer stationery, experienced a profits downturn of £150,000 to £456,000 pre-tax for the 1988 year. Turnover declined from £5.44m to £5.16m.

The results were affected by a decreased demand from the City financial sector, historically an important trading area, although the impact was somewhat lessened through new business gains.

Earnings fell by 2.25p to 3.53p but with no significant capital spending projected for 1989 and cash flow remaining good the directors are maintaining the final dividend at 1.5p, making 2.5p. That is the rate they would have recommended for 1987 had the shares been traded for the full year — the company came to market in the October of that year.

Pilkington buys bus and truck windscreen maker

By John Ridding

PILKINGTON, the world's largest producer of flat and safety glass, is buying for an undisclosed cash amount the automotive laminated windscreen business of Solaglas, a Kent based company with an annual turnover around £6m.

Solaglas which employs 120 people, specialises in replacement laminated windscreens and original equipment for buses and trucks. The company will become part of Triplex Safety Glass.

Mr Rod Stansfield, managing director of Triplex, said that the new plant has a valuable niche in the market geared to short runs for the replacement market.

Mr John Mason, managing director of Solaglas Automotive Division said that, "With the increasing need for sophisticated design and technology I believe the operation will be better placed as part of a major automotive component manufacturer."

Pearson takes software stake for £0.4m

Pearson Enterprises, a subsidiary of Pearson, which owns the Financial Times, is taking a 19 per cent stake in Hardwick Stafford Wright, a Cheshire-based financial software house.

It will also receive an option to acquire a majority interest.

Pearson is paying £405,000 and HSW will have the right to draw down an additional £400,000 under certain conditions.

DRG seals £2.76m French acquisition

By Patrick Butler

DRG, the stationery, packaging and engineering group, is to buy Deforges, a French specialist envelope manufacturer, for FFr30m (£2.76m). Deforges is based near Orleans and has an annual turnover of FFr180m.

DRG already has a presence in France through its offshoot, La Couronne, which annual sales of FFr800m.

Mr Moger Woolley, DRG chief executive, said the acquisition formed part of the group's evolving strategy for expansion. It would ensure that DRG was capable of expanding to new markets throughout Europe in the run-up to 1992. "We see size as important," he said, "and we can transfer technology very quickly from one place to another."

He said Deforges specialised in elaborate and colourful envelopes, widely used by advertising agencies for direct mail campaigns. It would thus complement La Couronne's production of conventional commercial envelopes.

In addition, Deforges would bring to the group an understanding of how to deal with clients interested in the French group's products. The acquisition is due to be completed after governmental and audit clearance.

American Barrick denies Capel legal action

By John Ridding

American Barrick Resources, the Canadian mining group, has denied that any decision has been taken concerning legal action against James Capel, the stockbroker which was its adviser during the group's raid on Consolidated Gold Fields in 1986.

Capel has admitted buying shares in Gold Fields at the same time as Barrick was building up a 4.9 per cent stake in the company.

Barrick has demanded a copy of the yet-to-be-published Department of Trade and Industry report into share purchases in Gold Fields in 1986 so as to assess its legal position. A spokesman for Barrick said yesterday that although the company had consulted its lawyers, it would not decide on any course of action until it had seen the report.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

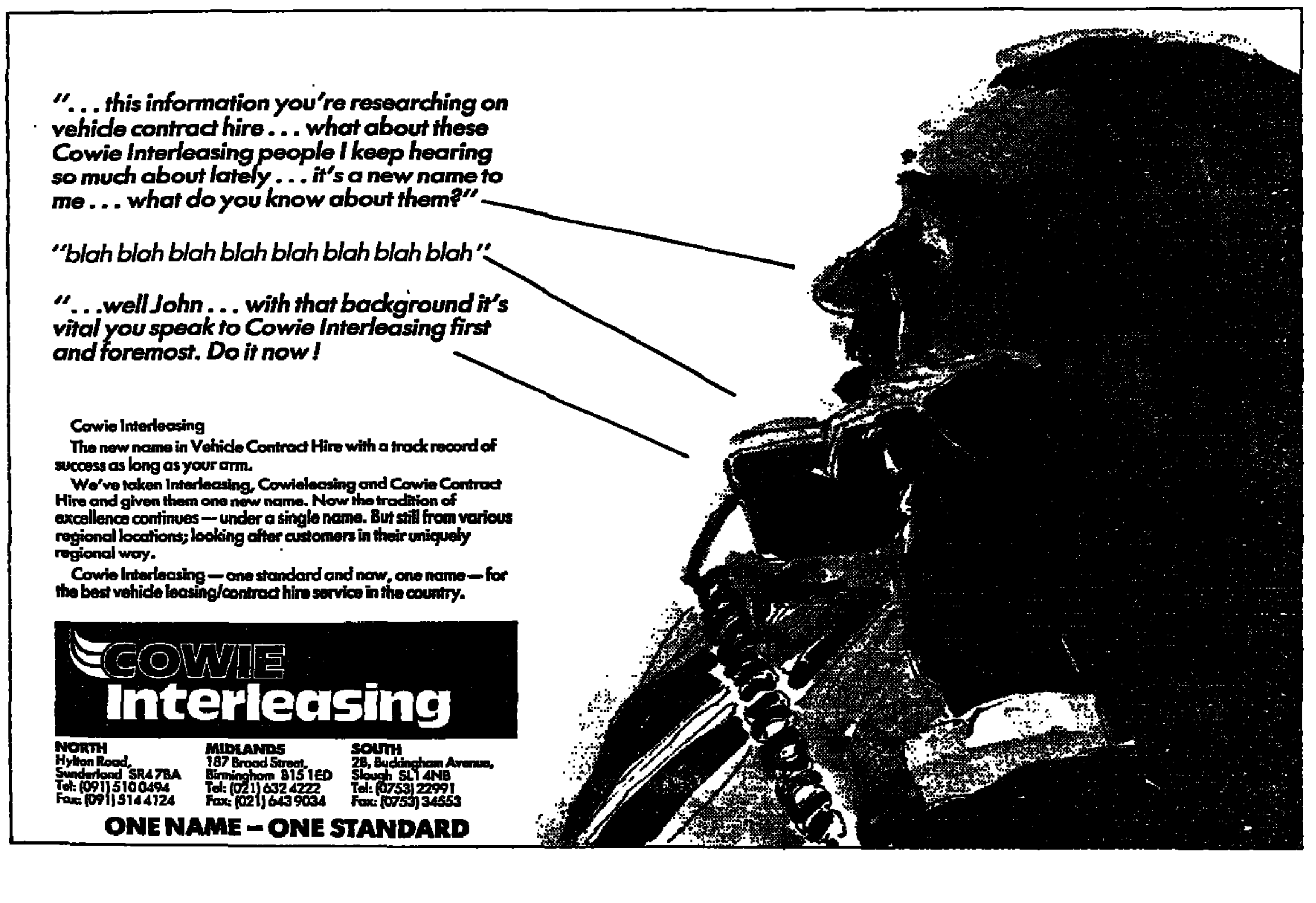
TODAY

Interims- Glaxo, Harmony Gold Mining, Pegasus, Raine Inds, Renishaw, Tay Homes.

Finals- AAF, ABB Kent, Bardsey, British Vita, Caird, Camellia Invs, Candover, Delaney, Fisher (James), Low & Bonar, MY Hldgs, Pacer Systems, Pentland, Perkins Food, Transport Development, USDC, Wyevale Garden Centres.

FUTURE DATES

Interims-	
Close Brothers	Mar. 16
Cooper (Frederick)	Mar. 30
Intl Inv Tst Co of Jersey	Apr. 7
Melville	Mar. 28
Paterson Zochonis	Mar. 21
TIP Europe	Mar. 21
Finals-	
Anglo Eastern Plantations	Mar. 30
Barker (Charles)	Mar. 23
Blackwood Hodge	Mar. 29
Linread	Mar. 21
Merchant Manufactory	Mar. 16
Scott & Robertson	Mar. 20
Sintrom	Mar. 21
Western Motor	Mar. 21
Wood (Arthur)	



FINANCIAL TIMES STOCK INDICES

	Mar. 10	Mar. 9	Mar. 8	Mar. 7	Mar. 6	Mar. 3	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.76	88.78	88.57	88.84	88.67	88.39	91.43	86.18	127.4	49.18
Fixed interest	99.35	99.26	99.30	99.12	98.97	98.94	99.35	94.14	105.4	50.53
Ordinary	1724.9	1714.1	1724.4	1715.6	1706.4	1697.5	1724.9	1349.0	1926.2	49.4
Gold mines	187.8	181.5	180.3	174.7	173.5	171.9	312.5	154.7	734.7	43.5
FT-Act All Share	1083.32	1078.48	1082.19	1080.89	1075.47	1049.25	1083.32	870.19	1238.57	61.92
FT-SE 100	2085.2	2075.9	2083.3	2083.5	2072.8	2059.2	2096.2	1694.5	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Sultanate of Oman returns to the fray

THE SULTANATE of Oman is back in the Euromarkets after a hiatus of nearly three years, with a $500m eight year loan expected to be launched today. Co-arrangers on the loan are Chase Investment Bank and Gulf International Bank.

The loan carries a four-year grace period. Margins for the first 8½ years, at ⅝ over London interbank offered rates (Libor), are identical to those of the Sultanate's last loan of similar size, signed in May 1986. However, the margin on the new loan rises to ¾ per cent in the loan's final years. The co-arrangers are seeking to form a lead management group of Arab, Japanese and European banks with the size of lead management positions still to be determined.

Enterprise Oil, the UK's biggest independent oil company, has raised £600m in short order to provide interim finance for its $1.4bn purchase of the oil exploration and production interests of Texas Eastern. It announced the deal on March 1, to be funded primarily through a rights issue of convertible stock. Citicorp agreed to underwrite £600m financing for 120 days.

By March 3, Enterprise had drawn some £265m of 40-day money from Citicorp. The bank took the loan on to its own book for 10 days and put out to tender the £265m financing of 30-day money to be repaid on April 12. Citicorp said the tender was oversubscribed, suggesting strong appetite for short-term assets of UK companies, but declined to say at what terms. In the event that Enterprise needs the remainder of the funds, Citicorp will also put that out to tender.

Meanwhile, experiments with so-called mezzanine financing in which banks have an opportunity to take an equity interest are attracting strong interest from UK lenders. The latest such venture is a £50m management buy-in of Crockfords Casino, in Mayfair, a property formerly owned by Brent Walker. Financing is being arranged by Samuel Montagu Specialised Financing and Midland Montagu Ventures, the investment bank's venture capital unit.

Unlike a management buy-out, the buy-in consists of a group of outside investors who acquire a firm with the intention of running it themselves. The Crockford's buy-in team is headed by Mr Garry Nesbitt who formerly ran a similar operation for Our Price Records, a music retailer which made an intitial public offering on the London Stock Exchange last year. Montagu expects Crockford's ultimately to be floated or sold to a private investor as well.

The loan financing consists of a £20m five-year senior loan and a £10½m subordinated "mezzanine" facility with a seven-year maturity. There is also £22.5m in equity financing for the buy-in.

While fees on both loan tranches are not being disclosed, the margins are 2 per cent over Libor and 4 per cent over Libor for the senior and subordinated tranches respectively. The subordinated tranche also carries warrants which will entitle lenders to buy shares in the company at a discount in the event it is later floated in a public offering or sold to a private investor. The premium on those warrants has not been disclosed.

Tokyo Leasing (UK) has signed a $100m Euro-commercial paper programme arranged by Bankers Trust International. Payment of interest and principal on the securities is guaranteed by Dai-Ichi Kangyo Bank of which Tokyo Leasing is an affiliate.

Foseco, a specialty chemicals and ultra hard materials company, has mandated NatWest Capital Markets to arrange for it a £50m commercial paper programme.

Norma Cohen

EUROMARKET TURNOVER ($m)

	Straights	Conv	FRN	Other
Primary Market				
US$	4,392.2	448.7	598.0	11,462.1
Prev	13,819.2	20.0	122.8	15,271.4
Other	4,456.7	56.4	724.4	1,748.7
Prev	5,480.3	16.5	1,259.1	2,548.9
Secondary Market				
US$	15,286.9	1,022.9	6,702.2	6,632.2
Prev	18,931.2	1,033.3	5,746.3	7,333.7
Other	18,842.8	885.2	4,586.5	22,764.3
Prev	19,420.7	1,134.6	3,741.9	23,654.8

	Cedel	Euroclear	Total
US$	11,103.5	35,441.7	46,545.2
Prev	15,504.7	46,772.4	62,277.1
Other	24,740.9	29,294.1	54,035.0
Prev	24,776.3	32,480.9	57,257.2

Week to March 9, 1989 Source: AIBD

INTERNATIONAL BONDS

Focus turns to hopes of further Ecu-sector recovery

THE PARTIAL RECOVERY of Ecu-denominated Eurobonds over the last two weeks has focused attention on one of the worst performing sectors of 1989. Investors, however, are advised not to rush in and buy seasoned Ecu bonds on recovery hopes.

A five-yearly revision of the currency due this September has already had significant effects on bond yields, while new issue activity will probably be restrained by the high coupons needed to attract buyers. Analysts also point out that over-issuance of Ecu-denominated bonds last year has played a significant part in the sector's under-performance.

The currency revision was confirmed in May last year and has hung over the market ever since. Its purpose is to adjust the relative weightings of the currencies making up the Ecu basket, and in particular probably to include for the first time the Spanish peseta and the Portuguese escudo.

Both these currencies are relatively high-yielding and volatile, so their inclusion at the expense of lower weightings in more stable currencies, primarily the D-Mark, is expected to cause bond yields to rise. Swiss investors in particular are reported to be worried by the prospect of the re-balancing.

Researchers have been busy forecasting the effects on yields of the revision. They argue that European monetary authorities are keen to limit the effect of the revision on the market and are likely to adopt only a moderate re-weighting. The crucial D-Mark weighting is expected to be set at around 30 per cent, a reduction implying a rise in Ecu yields of around 35 basis points.

Mr Jean-Louis Pezet of Banque Paribas Capital Markets believes the terms of the revision will be announced between April and June, before the September implementation. Recent market movements have anticipated likely yield adjustments, leading to the crossover of actual and theoretical yields shown.

Theoretical yield calculations are based on the discounted cash flows of a weighted basket of government bonds designed to create a synthetic Ecu security. Investors can use the figure against the actual yield of Ecu bonds to judge whether the paper is relatively cheap or expensive against the equivalent government bonds.

For example, if the actual yield falls well below the theoretical yield, then investors should consider switching out of Ecu bonds into cheaper government bonds. There are obvious transaction limitations on the usefulness of this strategy – switching costs money, while government bond markets have very different liquidity characteristics from the Ecu market.

However, researchers say that sophisticated institutional investors can use the technique to create their own basket of bonds reflecting market factors like liquidity. For example, it is possible to create a yield curve using triple-A rated bonds which mirrors an institution's portfolio.

Banque Paribas has been tracking the spread between the theoretical yields on Ecu-denominated Eurobonds for nearly four years and has established definite relationships. "In normal market conditions, the actual yield should be between 10 and 20 basis points below the theoretical yield, according to maturity. In an environment of rising interest rates, the spread between the two yields tends to narrow and eventually to become positive," says Mr Pezet.

The first months of this year in Europe have seen upward pressure on interest rates in many of the major markets, and this, coupled with anticipation of the currency revision, has been enough to take actual yields above theoretical value.

For example, based on recent closing prices, the actual yield of 7-year Ecu bonds is now 14 basis points over the theoretical yield of 8.53 per cent, while the 10-year spread is wider at 23 basis points.

Investment strategies in this environment are surprisingly simple. Mr Pezet thinks that recent new issues, of which there have been few, represent excellent value against secondary market bonds.

For example, the recent Credit Local 9¼ per cent three-year bonds were offered in the market on Friday at a yield of 8.80 per cent, 21 basis points over the theoretical and 32 basis points over the actual yield of a basket of three-year Ecu bonds. "At these levels, the bonds fully anticipate the expected impact of the revision," says Mr Pezet.

By contrast, EEC 7¼ per cent three-year bonds in the secondary market were offered at 97½ to yield 8.49 per cent, only 1 basis point above theoretical yield. Investors are recommended to switch from expensive secondary bonds into primary bonds yielding around 25 basis points more.

The key to the higher yields is that recent issues have carried high coupons to attract investors. Ecu-denominated Eurobonds are nearly always swapped into other currencies, making swap rates crucial to issuing opportunities.

Researchers at Union Bank of Switzerland point out that, swap rates permitting, issuers will be keen to launch Ecu bonds now, because they can look forward to paying dividend income and redemption principal in the cheaper, revised currency.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Nikken Chemicals Co.‡◆	100	1993	4	4⅜	100	Daiwa Europe	4.375
Nippon Shokubai K.K.‡◆	100	1993	4	4¼	100	Nomura Int.	4.250
Mitsubishi Bank Europe◆	50	1995	6	10¾	101⅞	Mitsubishi Fin. Int.	10.316
IBJ Int. Ltd.(b)◆	78	1994	5	10⅛	102⅞	IBJ Asia	9.379
Flesh Ltd.'E'(c)‡◆	30	1992	3½	16bp	100.10	Sanwa Int.	-
Honda Motor Co.‡	500	1993	4	(4½)	100	Nomura Int.	★
Asahi Glass Co.‡	400	1993	4	(4½)	100	Yamaichi Int. (Eur)	★
Asahi Glass Co.‡	200	1993	4	(4½)	100	Singapore Nomura	★
Nachi-Fujikoshi Corp.‡	150	1993	4	(4⅝)	100	Yamaichi Int. (Eur)	★
Toda Construction‡◆	150	1993	4	4¼	100	Nikko Secs. (Europe)	4.250
Nippon Thompson Co.‡	100	1993	4	(4⅝)	100	NKK Europe	★
IBJ Finance Co.◆	200	1993	4	10	101.45	IBJ Int.	9.547
Kyushu Electric Power◆	150	1996	7	10	101⅝	Daiwa Europe	9.670
Chrysler Fin.Corp(g)‡◆	150	1994	5	⅛	100	Bqe Paribas Cap.Mkts	-
Settsu Corp.‡	200	1994	5	(5¼)	100	Daiwa Europe	★
Sekisui Chemical Co.‡	300	1993	4	(4½)	100	Nikko Secs. (Europe)	★
CANADIAN DOLLARS							
IBM Canada◆	200	1994	5	11⅜	101¼	J.P. Morgan Secs.	11.036
Soc.Generale Acc.(h)◆	50	1990	1	14½	101⅛	Societe Generale	13.226
Pirelli (Channel Is.)◆	75	1991	2	12	101.35	Bankers Trust Int.	11.210
ASLK-CGER Finance◆	75	1991	2	12⅛	101.65	Merrill Lynch	11.160
Interfin. Cr.National◆	75	1991	2	12¼	101⅜	Nomura Int.	11.442
AUSTRALIAN DOLLARS							
Council of Europe(a)◆	50	1990	1	20½	101¾	Bankers Trust Int.	18.428
C'wealth Bk Australia◆	100	1994	5	15¼	101⅞	Deutsche Bk Cap.Mkts	14.695
Sth Australian Gov.Fin◆	75	1991	2	16¼	101⅞	Hambros Bank	15.095
D-MARKS							
Hydro-Quebec◆	300	1999	10	6¾	101	WestLB	6.610
Beiersdorf Finance◆	100	1996	7	7	101¼	Deutsche Bank	6.770
DSL Bank Luxembourg◆	75	1994	5	6¾	100¾	DSL Bank	6.569
Austria◆	750	1999	10	6¾	101¼	WestLB	6.576
SWISS FRANCS							
Komatsu Forklift★★‡◆	70	1994	-	1⅛	100	SBC	1.125
Yokogawa Bridge Wks★★§◆	60	1994	-	½	100	Credit Suisse	0.500
Juki Corp.★★‡◆	100	1994	-	1	100	Credit Suisse	1.000
KNP Interservice★★‡◆	100	1996	-	3¾	100	SBC	3.750
EIB★★◆	100	1996	-	5½	101	Credit Suisse	5.325
Mitsubishi Oil Co.★★§	300	1994	-	(0)	100	Credit Suisse	★
IADB◆	100	1996	-	5½	100	SBC	5.500
IADB◆	150	2001	-	6	101¼	SBC	5.852
STERLING							
Asda Group◆	125	2010	21	10⅞	101.753	BZW	10.663
Austria◆	100	1999	10	10⅜	101⅝	J.P. Morgan Secs.	10.109
Australian Ind.Dev.◆	75	1999	10	10½	101¼	Samuel Montagu	10.294
Alliance & Leicester◆	75	1996	7	11¼	101⅜	UBS (Secs)	10.959
ECUs							
Nat.Nederlanden US◆	75	1991	2	9	101½	Bankers Trust Int.	8.157
Kredietbank Int.(i)◆	50	1990	1	14	101¾	CSFB	12.039
FRENCH FRANCS							
SNCF◆	750	1997	8	9¼	101⅝	CCF	8.957
LUXEMBOURG FRANCS							
World Bank◆	1bn	1998	7	7⅝	100¼	BGL	7.578
SWEDISH KRONER							
Int. Finance Corp.◆	500	1994	5	10½	101¾	Nomura Int.	10.038
GUILDERS							
Honda Motor Co.‡★★	400	1993	4	(1⅛)	100	Amro Bank	★
Asahi Glass Co.‡★★	200	1993	4	(1⅛)	100	Amro Bank	★
IADB◆	200	1999	10	7¼	100½	ABN	7.178
YEN							
Credlop Finance Plc(f)◆	5bn	1994	5	7⅛	101⅝	Nomura Int.	6.732
National Bk of Canada◆	5bn	1994	5	(j)	101.80	Yamaichi Int.(Eur)	-
Abbey National(k)‡◆	13bn	1994	5	-55bp	100¼	LTCB Int.	-
Citicorp◆	10bn	1994	5	0	80.164	Goldman Sachs	4.521
Kentucky Dev.Fin.Auth.◆	10bn	1999	10	5.4	101.30	Nomura Secs.	5.300
Bank of Greece◆	20bn	1999	10	5.4	100.35	Daiwa Secs.	5.426
Asian Dev.Bank(l)◆	40bn	1999	10	5	100.65	Nikko Secs.	4.916
Okobank(f)◆	4bn	1993	4	5.7	101⅜	Bankers Trust Int.	5.309
Bergen Bank(f)◆	3bn	1994	5	7.3	101⅞	IBJ Int.	6.845

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Redemption in either A$ or US$. b) Additional $52m on tap. c) 16bp over 6-month Libor d) Warrant exercise period April 1989 to November 1993 at an exercise price of FI56. e) Put yields 1.757%. f) Redemption linked to Nikkei stock index. g) ⅛ over 3-month Libor. Convertible until April 1991 into fixed rate bond with coupon of 9½% due April 1996. h) Redemption in either C$ or US$. i) Redemption in either Ecu or US$. j) Step-up coupon: short first coupon 5%, 1989-91 2%, 1991-94 7%. k) 55bp under Japanese long-term prime rate. l) Daimyo bond - unlisted public issue. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

Jobs data hit slowdown theories

JUST AS Wall Street began grabbing at the first straws of an economic slowdown, the latest jobs data turned out much stronger than expected.

Bonds prices slumped again as analysts debated when, not if, the markets would face another tightening of monetary policy by the Federal Reserve.

The biggest reaction came at the short-end of the credit markets with three-month Treasury bills rising during the week to 9.05 per cent.

It must give stock investors pause for thought. After all, bills now yield double the dividend on the 500 stocks in Standard & Poor's index.

While the markets were waiting for the jobs data last Friday morning, they had drifted through a moderately positive week. The main help came from the a slowly strengthening dollar and the purchasing managers' monthly report which turned in its least bullish measure in two years.

Perhaps the economic slowdown had started and inflationary pressures would begin receding soon, some investors hoped.

Such optimism was dashed on Friday morning. The US economy created 289,000 jobs in February while January's figure was revised up slightly to 415,000.

Wall Street had been hoping for a smaller increase in the latest month and a downward revision from January's disconcertingly robust level.

Most strikingly, the US's unemployment rate dropped 0.3 of a point to 5.1%, its lowest level in 15 years. Ms Janet Norwood, Commissioner Of Labour Statistics, cautioned markets against reading too much into the volatile statistic.

She attributed the drop to a lot of 16 to 24-year-olds looking for work. They are a particularly fickle bunch who might not show up in such numbers next month.

Wall Street optimists also pointed to the very modest rise of 0.1 per cent in hourly earnings as a sign that wage inflation was in check. But each quarter follows a similar pattern.

The big rise in wages is in the first month (it was 0.5 per cent in January), the second month is much smaller and the third month even less.

The week-old strike at Eastern Airlines only heightened concern about wage inflation. Management of the bankrupt carrier want to cut wages of mechanics and ground crews; their union wants an increase.

After seven timid years during the Reagan Administration, unions are beginning to talk of clawing back some of the purchasing power they lost. Contracts of more than 3m unionised workers expire this year, making it a particularly busy period for negotiations.

Demands for higher wages and a more militant attitude towards strikes were reported by 82 per cent of 427 unionised companies surveyed recently by Imberman & DeForest, a Chicago management consulting firm.

Not only are employers' struggling with wage demands, they are also beginning to wonder where the extra workers they need are coming from. Plans to expand their workforces were reported recently by 30 per cent of some 14,000 US companies surveyed by Manpower, the employment agency owned by Blue Arrow of the UK.

Another disturbing trend in labour markets was spotted on Friday by Mr Robert Brusca, chief New York economist of Nikko Securities. The number of manufacturing employees fell in February, leaving the service sector to provide the growth in jobs. Who is going to make the goods these new workers are planning to buy? he asked.

Although the markets took on board most of the bad news about jobs, they largely overlooked some other negative news last week in the form of rising progess for petroleum products and other commodities.

The coming week provides a big batch of data to help fill out the picture of the economy's performance last month. Fortunately the preducer price index on Friday is likely to increase by only half a point or so compared with the unnerving 1.1 per cent rise in January.

Industrial production and capacity data on Thursday will not be good news for those worried about the economy's production constraints. Both measures will edge higher. January's trade deficit, to be released on Wednesday, is likely to be around the $10.2bn preliminary figure for December.

Do not be lulled by the data, though, warned McCarthy Crisanti & Maffei, one of the more pessimistic firms of market analysts at the moment on the Street. The figures would provide only "a temporary reprieve from . worsening trends in the merchandise trade imbalance and inflation," it said on Friday.

It expects the Fed funds rate at which banks lend reserves to each other to hit 12 per cent by mid year from the current level of about 9.75 per cent.

Other analysts are not quite so pessimistic but most nonetheless believe the Federal Reserve will soon be pushing the rate through the psychologically important 10 per cent level.

Timing is a tricky question, though, with analysts divided over whether further tightening will come before or after the next meeting of the Fed's policy making Open Market Committee which begins on March 28.

Several other factors helped steady credit markets last week while investors adjusted to the prospect of higher interest rates. The demand for 30-year Treasury bonds continued interest portions separately.

The Treasury said last week that $3.1bn of the bonds were stripped in February, down from the exceptionally high level of $4.5bn in December. The demand helped keep the fall in the bonds' price to only apace from investment dealers stripping them into zero coupon bonds and selling the ⅝ of a point last week which in turn left the yield curve nearly flat. The unstripped bonds were yielding only some nine basis points more than three-month Treasury bills.

One sign of the markets' urge to draw comfort from the most unlikely sources came in its reaction to Mr Michael Boskin, chairman of President Bush's Council of Economic Advisors.

All he had to do was to tell Congress that the Administration "would not rule out a discussion" on tax increases and some in the markets believed prospects for budget progress were looking up.

In reality, a disheartening fight between Congress and the President looms which in due course will only add to the discomfort of the credit markets.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.75	9.50	9.06	9.89	6.27
Three-month Treasury bills	9.05	8.96	8.86	9.05	5.60
Six-month Treasury bills	9.30	9.16	9.05	9.30	5.74
Three-month prime CDs	10.12	9.90	9.45	10.12	6.77
30-day Commercial Paper	9.75	9.85	9.15	9.75	6.65
90-day Commercial Paper	9.80	9.85	9.30	9.80	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99⅞	-⅜	9.39	9.33	9.22
20-year Treasury	100⅛	-⅜	9.26	9.23	9.12
30-year Treasury	97⅞	-⅝	9.14	9.12	9.04

Source: Salomon Bros (estimates).

Money supply: In the week ended September 7 M1

NRI TOKYO BOND INDEX

December 1983 = 100	9/3/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	147.53	4.90	147.73	148.40	143.10
Government Bonds	147.54	4.73	147.80	149.75	143.22
Municipal Bonds	149.81	5.08	150.16	149.98	144.74
Govt.-guaranteed Bonds	150.94	5.11	151.29	150.92	146.33
Bank Debentures	141.53	4.77	141.50	141.39	137.44
Corporate Bonds	148.83	5.44	148.95	147.41	144.11
Yen-denom. Foreign Bonds	153.23	6.10	153.04	150.49	147.46
Government 10-year†	5.00		4.96	4.78	5.33

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

City looks to Lawson's pointers

TOMORROW, when Mr Nigel Lawson, the UK Chancellor of the Exchequer, delivers his annual Budget statement the main interest for the gilts market will be in what he has to say about the future trend in output, consumption and inflation.

That is the bottom line of much of the commentary emanating from the economics departments of the City's securities houses. It underlines the impression that has taken root over the past weeks that Mr Lawson's sixth Budget will be a low key affair.

Looked at from the outside, the consensus expectation of the gilt-edged securities market seems hard to take issue with. The constraints on the Chancellor, in terms of large-scale tax remissions, do seem overwhelming, as does any further development of his root and branch reform of taxation in Britain.

A "Budget for savings" has all but completely been knocked on the head by the Treasury which recently alerted commentators to the healthy state of national savings; a "Budget for the poor" depends on assessments of the Chancellor's social conscience.

In terms of the macro-economic effects of changes to taxation (a somewhat outmoded concept in these days of medium-term, supply-side considerations) the markets expect to be unexcited by the Budget.

Mr Lawson may be many things but he is rarely boring or uninteresting. The gilts market may just be in a position of looking at a tree and thinking it is staring at a forest.

The Chancellor has a broader constituency to play to than just the City. He has the Tory backbenches and through them the Tory votes, all who have benefited from his Chancellorship and most of whom are now suffering because of high interest rates.

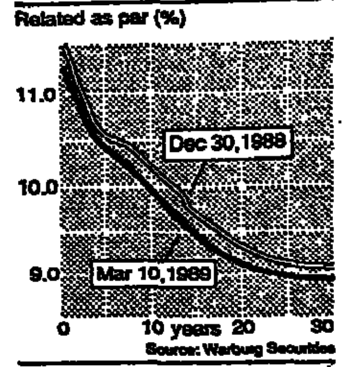
This suggests he may well elect to cut taxes and possibly by a good deal more than the near-consensus expectation of 1p in the pound. Well before evidence of a substantial slowdown in consumers demand came through the Institute for Fiscal Studies reckoned on £3bn of net tax cuts. Mr Lawson might just do it.

Also, and just in case the gilts market has missed it, the Chancellor is no longer beholden to London's credit markets, or at least not that part known as the gilts market. He does not need to finance excess Government expenditure through the gilts market any more; indeed he is buying the Government's debt back because he has a huge Budget surplus.

A Budget for the gilts market would be one in which he said he planned to introduce more order into the buy-back programme; to look for cost effective ways of restructuring the market so as to promote efficiency and tradability.

UK gilts yields

Related as par (%)



Source: Warburg Securities

There is some evidence of the Treasury taking an interest in this subject, although it is doubtful whether the Budget will be the place to demonstrate it. But of what we can be almost certain is that Mr Lawson will be up-beat about paying off the national debt. . . "relieving the burden of debt from the shoulders of future generations". . . or some such.

Sterling has been the key the UK's short-term prospects ever since bank base rates were raised to 13 per cent in November last year. And if Mr Lawson will be addressing and constituency in the City it will be the foreign exchange market.

It has become clear over the past three weeks that, given the consumer retrenchment over the Winter, neither the Treasury nor the Bank of England wants to see domestic interest rates rise. From a domestic point of view the pressure for a lowering of rates can only grow, while, from an international stand point the pressures are pointing in the reverse direction.

Softening the market up for a change in monetary policy is thought by many in the market to be one of Mr Lawson's main aims tomorrow. His permanent secretary at the Treasury, Sir Peter Middleton, had something pertinent say on this and related subjects in a lecture last November.

"Building up a track record takes time and careful presentation [my italics] at home and abroad. It depends on achieving results more than words or philosophy. It can be helped by certain things – medium term approaches, constant vigilance against inflation, supply side policies which are outward rather than inward looking. But achievement in terms of inflation and the dynamism of the economy count most."

From the market's perspective, presentation and pragmatism are the keys here. The Budget should be watched for clues to, amongst other things, how and when Mr Lawson will present the next cut in interest rates.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
AMFC O/S FIN. 11¼ 94	100	100¼	-⅛	11.66
ALBERTA PROVINCE 7¾ 91	750	93¼	0	10.09
ALBERTA PROVINCE 9¼ 95	600	97⅞	-⅛	9.90
ALCOA AUSTRALIA 11 92	80	99⅝	0	11.08
AMERICAN GENERAL 9¾ 95	100	98⅞	0	9.99
AUSTRALIA 11¼ 90	100	100¼	-⅛	10.63
AUSTRALIA 11¼ 00	100	105⅝	+⅛	10.36
[illegible]				
ONTARIO HYDRO 11¼ 89	200	100¼	0	10.90
ONTARIO HYDRO 11¾ 94	200	105½	-⅛	10.14
ONTARIO HYDRO 11¼ 90	200	102	0	10.22
ONTARIO HYDRO 13½ 91	100	105⅝	-⅛	10.30
ONTARIO HYDRO 14¼ 89	150	100¼	0	12.13
ONTARIO HYDRO 15 92	150	112⅞	0	10.31
OSTER KONTROLLBANK 8⅛ 93	200	93½	-⅛	10.18
OSTER KONTROLLBANK 9⅛ 92	200	97¼	-⅛	10.03
PACIFIC GAS & ELEC 12 00	75	106½	-⅛	10.93
PENNEY J C 22¾ 92	100	101⅞	0	21.85
PEPSICO INC 7¾ 93	200	90¼	+⅛	10.41
PEPSICO CAPITAL 8⅝ 91	100	96	0	10.61
PETRO-CANADA 7¼ 96	200	86½	+⅛	9.92
PHILIP MORRIS 9¾ 98	200	96	-⅛	10.57
POSTIPANKKI 11¼ 90	75	100⅞	0	10.37
PROCTER & GAMBLE 10 95	150	99¼	+⅛	10.16
PRU.RLTY.SECS. 0 99	365	39¾	+⅛	9.83
QANTAS AIRWAYS 8⅝ 96	97	92⅞	-⅛	10.12
QUEBEC PROV 13 90	150	102⅞	0	10.87
QUEENSLAND GOVT 11⅞ 89	100	100¼	0	10.95
RALSTON PURINA 11⅞ 95	150	103½	0	10.94
REYNOLDS R.J. 10¾ 93	100	93⅞	0	12.10
RICHARDSON-VICKS 11⅞ 93	125	102⅞	0	10.80
ROCKWELL INT 9⅞ 90	200	99	-⅛	10.58
S A S. 10⅛ 95	150	99⅞	-⅛	10.13
SARA LEE 9⅞ 93	150	95⅝	-⅛	10.57
SASKATCHEWAN 7 91	125	93⅞	-⅛	10.52
[illegible]				

CONVERTIBLE BONDS	Issued	Price	Chg on week	Prem
[illegible]				
CANON 3 00	100	227	-9	-1.40
EASTMAN KODAK 6⅜ 01	300	104½	0	14.44
ELDERS UK 5 97	75	117	-⅛	-10.27
FUJITSU 3 99	180	228	-6	-0.88
GRACE (W R) 6½ 02	150	82⅞	0	29.97
GRAND MET 6½ 02	100	93	+⅞	13.28
INTL PAPER 5¾ 02	200	88½	0	28.24
LTCB 1⅞ 02	200	112¼	-1⅛	2.92
MCA 5½ 02	300	89⅞	+2⅞	15.39
MITSUBISHI BK 1⅞ 02	300	123½	-3	-2.30
NEWMONT MINING 7 01	100	114⅝	+1⅛	5.20
NIPPON ELECTRIC 2⅞ 00	150	259⅞	-12⅞	-2.28
NISHI NIPPON 2⅞ 03	70	122	-2	2.94
PIONEER CONRETE 9½ 98 A$	175	82⅞	-⅛	26.85
ROCKEFELLER CENTER 0 00	952	31⅛	+⅛	-64.17
SANWA BANK 1⅛ 02	300	106½	-2	-1.20
SOUTHWEST AIRLINES 6⅜ 98	37	86⅞	+⅞	33.70

WARRANTS	Expiry date	Price	Chg on week	Yield
[illegible]				
AEGON 9 92	24/09/92	6	0	8.76
AVON CAPITAL 9 93	09/04/89	—	—	—
B.F.C.E. 9⅞ 96	16/12/90	105	+25	9.44
CHRYSLER FIN 10⅞ 94	02/03/94	31	0	9.96
DEN NORSKE CREDIT 8 94	02/03/90	1	0	7.97
DENMARK 12⅞ 92	31/01/90	47	-8	10.73
GEN ELEC CRED 9½ 92 B	17/12/92	8½	-⅛	9.20
GMAC 8⅞ 95 B	11/02/91	8	0	8.57
HEINZ H.J. 7½ 96	01/10/90	3¼	-⅛	7.49
NORDIC INV BANK 7⅞ 96	30/10/91	2½	0	7.82
NORDIC INV BANK 8⅞ 96	27/03/91	3	0	8.86
ROYAL BK CANADA	28/01/90	41	-5	10.74
SBC FINANCE 10¼ 90	11/01/90	0⅛	-⅛	10.13

[illegible]				

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on MARCH 11

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Papua dispute threatens BP $4bn disposal

By Kenneth Gooding, Mining Correspondent, in Sydney

THE SMOOTH completion of RTZ Corporation's deal to buy British Petroleum's worldwide mineral assets for $4.3bn is being threatened by a dispute looming over the Lihir Island gold project in Papua New Guinea.

Lihir is one of the world's truly remarkable ore bodies, is probably the largest discovered outside South Africa this century and some analysts suggest it is worth at least $1bn.

It is one of the key assets RTZ hopes to acquire from BP because Lihir is expected to be producing 850,000 troy ounces of gold a year by the mid-1990s and transform RTZ into one of the world's leading producers.

However, a small Australian company, Niugini Mining, which discovered Lihir in 1982 and has a 20 per cent stake in the project, claims it has pre-emptive rights to buy BP's 80 per cent holding now it has been put up for sale.

So far BP insists that these rights are not triggered by the RTZ deal.

Mr Geoff Loudon, Niugini's chairman, sets off from Sydney to London tomorrow to start negotiations with both BP and RTZ on Thursday.

He made it clear yesterday that his company was seeking to increase its stake in the Lihir project by only another 10 per cent, although if necessary there were several major companies ready to provide the finance for the full 80 per cent.

"We want to sort it out on a friendly basis," he said. "There is no point in having a long, miserable relationship with RTZ." He said, however, that "in the last resort," Niugini would take the matter to the court in Papua New Guinea where it has its head office.

Such action could make it impossible for BP and RTZ to complete their deal, announced in January, on schedule early next month. Niugini expects to get shareholders' approval on Friday to place 20m shares to raise about $100m towards the cost of increasing its interest in Lihir.

If approval is given, the shares are likely to be placed, at well above the current market price of $3.50 each, with a leading international mining group - which Mr Loudon yesterday declined to name.

The new shareholder would then have about 23 per cent of Niugini's enlarged capital.

At present, about 30 per cent of Niugini is owned by gold funds in the US with a further 25 per cent in the hands of European institutional investors.

By June this year, $65m will have been spent to bring Lihir to the point of production, of which Niugini will have contributed $13.5m.

Once the go-ahead is given, another $750m will be needed for capital equipment to bring a mine into production late in 1991. In the early years, gold could be recovered for only $132 an ounce.

BP recently told Niugini that further exploration had dramatically increased Lihir's geological gold reserves to nearly 48m ounces, which would give the mine a life of 35 years at the projected rate of output.

Investcorp lifts stake in Gucci to 50%

By Alan Friedman in Milan

INVESTCORP, THE Bahrain-registered investment bank that last year bought a strategic 47.8 per cent equity stake in Gucci, the Italian luxury goods manufacturer, has increased its holding to 50 per cent amid signs that negotiations for a management accord with the last Gucci family shareholder are entering a final stage.

Investcorp has paid more than $5m for the 2.2 per cent of Gucci that was owned by Mr Roberto Gucci, who has been involved in a long-standing family feud.

The purchase of this stake means that Gucci is now equally owned by Investcorp and by Mr Maurizio Gucci, the family member whose holding is being unblocked by a Milan court following lengthy litigation.

Investcorp's total spending on its 50 per cent Gucci stake, its 33 per cent holding in Gucci America plus minority stakes in Gucci franchise companies in London, Paris and Hong Kong is believed to now total more than $140m.

An agreement last summer gave Investcorp five board representatives, equal to the representation of the court-appointed custodians of Mr Maurizio Gucci's equity stake. There are signs that Mrs Maria Martellini, the university professor who has been acting Gucci chairman since 1987, may soon be leaving her caretaker post.

Swiss regulators cool on Crédit Suisse proposals

SWISS BANKING regulators may choose to regard Crédit Suisse's planned holding company as a bank, negating many advantages Crédit Suisse hoped its SFr100m ($63.7m) reorganisation would bring, Reuter reports.

Mr Daniel Zuberbühler, deputy director of the Swiss Banking Commission, a government watchdog,said: "We are looking at whether CS Holding should be regarded as a bank."

Their decision will set an important precedent for other Swiss banks that might like to use holding companies to circumvent strict requirments on capital adequacy.

Crédit Suisse, Switzerland's third-largest commercial bank, plans to make its sister company, CS Holding, the parent company for the entire Crédit Suisse group.

CS Holding would own 100 per cent of Crédit Suisse, 44.5 per cent of CS-First Boston, 45 per cent of Elektrowatt and 94 per cent of Fides Holding, a fiduciary investment and consulting company.

CS-First Boston is an investment bank formed last year by the merger of Financière Crédit Suisse-First Boston (FCSFB) with First Boston. Elektrowatt is an electrical utility.

By splitting the bank and the other units into separate subsidiaries of a holding company, Crédit Suisse can reduce the amount of capital the bank must hold as a safeguard of its financial strength.

Regulators from the Group of 10 last July adopted international standards that require banks to hold capital equal to at least 8 per cent of risk-weighted assets by 1992.

Swiss domestic guidelines are even stricter. Banks must set aside 40 per cent of the assets of their non-bank holdings, including stakes in companies like Elektrowatt.

The banking commission and Crédit Suisse struck a compromise on capital adequacy when the bank formed CS Holding in 1983. According to Mr Zuberbühler, the bank agreed in 1984, without acknowledging a legal obligation, to consolidate the assets of CS Holding in return for getting a discount on FCSFB assets.

The commission could now insist the Crédit Suisse group build reserves for all its holdings. "That would remove all the advantages (of the restructuring) except for transparency," Mr Zuberbühler said. "There would still be greater transparency than before."

The group has said it will report consolidated results. The commission has already informed Crédit Suisse that its reorganisation and the potential implications for Swiss banking law are under review, Mr Zuberbühler said. Swiss law does not at present address bank holding companies.

Crédit Suisse said the bank would await the commission's decision before deciding its response. Its options include accepting the ruling, fighting it in the courts, or moving CS Holding overseas, it said.

Crédit Suisse officials believe only the bank itself should have to meet Switzerland's strict capital adequacy requirements. CS-First Boston is not subject to Swiss regulation because it is not based in Switzerland.

Cartel move on Daimler MBB deal

THE WEST German Federal Cartel Office has informed *Daimler-Benz that the office* has certain objections to the motor group's acquisition of a majority shareholding in Messerschmitt-Bölkow-Blohm (MBB), the aerospace and defence concern, AP-DJ reports.

However, the cartel authorities strongly denied a report in the Der Spiegel magazine that the cartel office had already decided to rule against the transaction.

According to the magazine, the cartel office had concluded that the combined market share of the two companies in several defence sectors, such as military aircraft, helicopters, and missiles, would violate West German anti-trust regulations.

The Daimler deal, which is planned for later this year, could conceivably proceed also against the wishes of the cartel office through special government permission.

Bonn has actively pushed for the Daimler-MBB takeover for several years.

Any cartel office ruling against the takeover would give further ammunition to critics of the transaction, who fear that Germany's largest industrial group would gain too much influence over the country's economy and its defence policy if it swallowed MBB.

Israeli banks fight government share plan

By Andrew Whitley in Tel Aviv

THE CONTROLLING shareholders in Israel's leading banks are strongly resisting government plans to strip them of their special voting rights.

At stake is the future of a Government's scheme to sell the state's majority holdings of bank equity and inject an element of greater competition into what has been a long standing banking cartel.

The dispute is expected to come to a head shortly with the introduction in parliament of legislation to equalise the voting rights of all issued shares. The reaction of the big banks has been predictably hostile.

But the determination of Mr Adi Amorai, a former Deputy Finance Minister entrusted with the tricky task of disposing of the bank shares to the public is equally strong. The principle has to be "one share, one vote," he has.

The saga goes back to October 1983 when the Tel Aviv Stock Exchange suddenly crashed. The Government of the day was forced to bale out the banking system. In what is now regarded as a highly expensive mistake, it also guaranteed the pre-crash value of bank shares in US dollars.

At the time the value of the shekel was eroding rapidly. But the potential bill faced by the Treasury is estimated at $7bn, equivalent to a quarter of Israel's gross national output. How to limit the Government's losses without nationalising the banking system has always been at the heart of the dilemma.

A series of pre-fixed redemptions, culminating in last October's $3.5bn recycling exercise, saw the bulk of the shares held by the public sold to the Government. But, with few voting rights, the state knew it could always be outgunned by the original owners.

In the case of Bank Leumi, for instance, the Jewish Colonial Trust, OHH, has 75 per cent of the voting rights, but only 2 per cent of ordinary shares. The World Mizrahi Movement, a religious foundation, is in a similar position with United Mizrahi Bank; as is Hevrat Ha'Ovdim, the labour federation's holding company, over Bank Hapoalim.

Two weeks ago, OHH received permission from his parent company to make an offer to the Government. It was prepared to reduce its voting rights to 33 per cent and offered to purchase a 30 per cent block of its own, government-held, equity. To finance the purchase, estimated at about $370m, it plans to raise funds from "good. Zionists" abroad.

If the proposal is accepted - and Bank Leumi is convinced it will be, sooner or later - other bank shareholders have indicated they would follow suit. As the "hardcore" shareholders, they would thus be able to retain effective control of the management and supervisory boards. However the two sides have yet to get down to detailed negotiations.

Dresdner backs Liffe Euromark contract

By Katharine Campbell

DRESDNER BANK will number among the designated brokers for the Euromark futures contract to be introduced on the London International Financial Futures Exchange (Liffe) on April 20, it was announced recently. A total of 16 brokers is committed to actively marketing the new three-month interest rate contract, prior to the launch and afterwards, and to keeping a broker in the Euromark pit for at least three months.

At the launch of the now highly successful 10-year government bond contract last September, Liffe's first West German contract, the German banks were notable by their absence on the list of designated brokers.

Because West Germany plans its own exchange, the Deutsche Terminbörse (DTB), to open next January and trade among other things a 10-year bond and possibly a three-month interest rate contract, German banks' allegiance was officially with the home venture.

Mr Ralf Lemster at Dresdner in London noted last week: "We won't cease to be involved in the DTB just because we are designated brokers in the Euromark contract." He would not elaborate on the "organisational" reasons why the bank was committing itself to the designated broker scheme this time around, though he did point out his firm now had four traders in the Liffe pits compared with two last September.

The group of 16 for the Euromark future is largely unchanged from those associated with the bund contract, though James Capel and First Options of Chicago , together with Dresdner, replace Cater Allen, Nikko Securities and LIT Europe.

Liffe has also announced that Market Makers Group of Amsterdam and Nomura International will be designated market-makers for the new option on the bund future, also to be launched on April 20. Unlike designated brokers, these market makers commit to quote prices within a certain spread

Sharp recovery at Sanyo Electric

SANYO Electric, the Japanese consumer electronics group, saw a sharp recovery last year. It lifted consolidated pre-tax profits in the year ended November, 1988 to Y24.3bn ($187.7m) from Y608m a year earlier, Reuter reports.

At the net earnings level the group staged a turnround to a profit of Y6.14bn, compared with a net loss of Y17.5bn yen last time which took earnings per share to Y3.63, against a net loss of Y9.30. Sales grew by 4.2 per cent to Y1,240bn from Y1,186bn.

Amic advances by 75%

By Jim Jones in Johannesburg

ANGLO AMERICAN Industrial Corp (Amic), the industrial arm of South Africa's Anglo American group, increased sales by a third last year and pre-tax profits by nearly 75 per cent on strong world need for ferro-alloys and a recovery in domestic demand for industrial and consumer goods.

Turnover rose to R4.73bn ($1.88bn) from R3.55bn and profits increased to R1.03bn before tax compared with R593m. The dividend is going up from R2.25 a share to R2.90.

Mr Graham Boustred, the chairmen, said yesterday that Highveld Steel, Mondi Paper, and the group's Boart drilling equipment manufacturer each recorded strong advances.

DIARY DATES

Trade Fairs and Exhibitions: UK

Current
British Footwear Fair (01-739 2071)(until April 14)
NEC, Birmingham

March 16-19
Cable and Satellite Exhibition (01-486 1951)
Olympia

March 19-21
International Cycle & Leisure Fair (01-390 2211)
Olympia

March 21-22
British Institute of Management Exhibition and Conference (0536 204222)
Wembley Conference Centre

March 24-25
Cash and Carry Fashion Fair (01-727 1929)
Kensington Town Hall, London

March 29-31
Fashion Fabrics Exhibition - FABREX (01-385 1200)
Olympia

March 30-April 5
British International Antiques Fair (021 780 4171)
NEC, Birmingham

April 3-5
London International Book Fair (01-940 6065)
Olympia

April 11-13
International Trenchless Construction for Utilities Conference and Exhibition - NO DIG (0923 776311)
Kensington Exhibition Centre

April 17-21
International Maritime Exhibition - EXPOSHIP LONDON (0206 4512)
Barbican Centre

April 23-26
The London International Furniture Show (01-370 8215)
Earls Court

Overseas Exhibitions

Current
International Motor Exhibition (Geneva 41 22 981111)(until March 19)
Geneva

International Spring Fair (0375 392222)(until March 18)
Leipzig

March 17-20
International Footwear Fair - GDS (01-794 0166)
Dusseldorf

March 23-28
International Nuclear Technology and Instrumentation and Equipment Exhibition - NT & IE CHINA (01-229 2616)
Beijing

March 30-April 9
International Household Fair - HUISHOUDBEURS (01-741 4437)
Amsterdam

April 3-8
International Plastics and Rubber Industries Exhibition - CHINAPLAS
Shanghai

April 4-7
International Airport and Aerospace Engineering Exhibition and Symposium (01-493 0992)
Osaka

April 17-22
Office Equipment, Data Processing & Software Exhibition - SICOB (01-225 5566)
Paris

Business and management conferences

March 13-14
LCM Marketing/York MDM: Logistics in manufacturing (0532 426314)
Cafe Royal, London

March 14
Institution of Mining and Metallurgy: Metals 2000 - A definitive assessment of trends in the major metals over the next decade (01-580 3802)
Park Lane Hotel, London

March 15
PRO NED/Birmingham Chamber of Industry: Non-executive directors - a way to building a better business (01-637 2281)
Edgbaston Banqueting Centre

March 16-17
Institute for International Research: Workstations for the dealing room (01-434 0230)
Cafe Royal, London

March 20-21
Financial Times Conferences: Retailing in the 90's - The role of technology (01-925 2323)
Hotel-Inter-Continental, London

March 20
Blenheim Online: Introduction to OSI (01-868 4466)
Queen Elizabeth II Conference Centre, London

March 21-22
IPM Personnel Management Services: The acts of employment (01-946 9100)
Rubens Hotel, London

March 22
The Institute of Economic Affairs: Tensions and opportunities in Britain's EC relationships (01-799 3745)
Queen Elizabeth II Conference Centre, London

March 30
HS Conference Studies/ Property Management: Property management - New solutions to current problems (01-935 2382)
Cavendish Conference Centre, London

April 3-7
EUUG: UNIX-European Challenges (010322 4476S 73036)
Brussels

April 4
CBI Conferences/Direct Marketing Centre: Agenda for change (01-379 7400)
Centre Point, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

PARLIAMENTARY

Today

Commons: Easter adjournment motion.

Proceedings on the Consolidated Fund (No. 2) Bill.

Lords: Prevention of Terrorism (Temporary Provisions) Bill, third reading.

Elected Authorities (Northern Ireland) Bill, third reading.

Debate on EEC report on Compliance with Public Procurement Directives.

Motions on the European Parliamentary Elections Regulations and the Appropriation (Northern Ireland) Order 1989.

Select committees: Energy: subject, energy policy implications of the "greenhouse effect." Witness: Baroness Hooper, Energy Minister, and officials. (Room 8, 3.30 p.m.)

Public Accounts: subject, Welsh Office. Witness: Sir Richard Lloyd Jones, Welsh Office. (Room 16, 4.30 p.m.)

Environment: subject, British Waterways Board. Witness: Inland Waterways Amenity Advisory Council. (Room 21, 5.15 p.m.)

Televising of Proceedings of the House: Witness: Assistant Serjeant at Arms. (Room 15, 6.0 p.m.)

Tomorrow

Commons: The Chancellor's Budget statement.

Timetable motion on Lords amendments to the Prevention of Terrorism (Temporary Provisions) Bill.

Opposed Private Business after 7 p.m.

Lords: Football Spectators' Bill, committee.

Motions for approval on European Parliamentary Constituency Changes Ordersand the Drug Trafficking Offences Act 1986 (USA) Order 1989.

Question to the Government on the issue of British passports to Hong Kong citizens.

Wednesday

Commons: Continuation of Budget debate.

Lords: Debate on violent crime and measures to protect the public.

Motions on Northern Ireland Emergency Provisions Regulations.

Select committees: Foreign Affairs: subject, Foreign Office and Overseas Development Administration Expenditure. Witnesses: Mr John Caines and other officials from the ODA. (Room 6, 10.30 a.m.)

Defence: subject, starting levels in the Procurement Executive. Witnesses: Ministry of Defence officials. (Room 16, 10.50 a.m.)

Agriculture: subject, land use and forestry. Witnesses: the Ramblers Association and the British Field Sports Society. (Room 20, 11.0 a.m.)

Energy: subject, energy policy implications of the "greenhouse effect." Witness: BP International. (Room 8, 11.0 a.m.)

Trade and Industry: subject, financial services and the single market. Witnesses: Professor Bob Carter, Professor Richard Dale and Professor Steven Schaefer. (Room 15, 11.00 a.m.)

Employment: subject, the role of part-time work in the labour market and its impact on the economy. Witness: Institution of Professional Civil Servants. (Room 8, 4.15 p.m.)

Social Services: subject, resourcing the National Health Service - the White Paper "Working for Patients." Witness: Mr Kenneth Clarke, Health Secretary. (Grand Committee Room, Westminster Hall.)

Home Affairs: subject, higher police training and the Police Staff College. Witness: Mr Tony Moore. (Room 20, 5.15 p.m.)

Thursday

Commons: Continuation of Budget debate.

Lords: Children Bill, third reading.

Road Traffic (Driver Licensing and Information Systems) Bill, third reading.

Motions on Pneumoconiosis (Workers Compensation) Order and the Redundancy Payments (Local Government) Order.

Question to Government on relationship between planning control and aesthetics.

Friday

Commons: Private members' motions.

FINANCIAL

TODAY

COMPANY MEETINGS-
Trusthouse Forte, Grosvenor House Hotel, Park Lane, W., 11.00

BOARD MEETINGS-
Finals:
AAF Inv.
ASS Kent
Barclays
British Vita
Cairn
Camellia Invs.
Candover Invs.
Delaney
Fisher (James)
Low & Bonar
M.H. Hldgs.
Pacer Systems
Pentland Inds.
Perkins Food
Transport Dev.
USDC Inv Tst.
Wyevale Garden Centres
Interims:
Glaxo
Harmony Gold Mining
Pegasus
Rolfe Inds.
Renishaw
Tay Homes

DIVIDEND AND INTEREST PAYMENTS-
[illegible]

TOMORROW

COMPANY MEETINGS-
Camford Engineering, Blakemore Thistle Hotel, Little Wymondley, Stevenage, Hertfordshire, 12.00
Kershaw (A), 6, Connaught Place, W., 10.00

BOARD MEETINGS-
Finals:
Automated Security
Hickson Intl.
Hong Kong & Shanghai Banking
Inch Kenneth Kajang Rubber
Kode Intl.
Northern Eng.
Palma
Process Systems
Robinson Bros. (Ryders Green)
Thorpe
Interims:
BM Group
Medminster
Precious Metals

DIVIDEND AND INTEREST PAYMENTS-
[illegible]

WEDNESDAY MARCH 15

COMPANY MEETINGS-
Optim Group, Optim House, Blackhorse Road, Letchworth, 11.00
Rank Org., Gloucester Hotel, Harrington Gardens, S.W., 11.00

BOARD MEETINGS-
Finals:
Alfa-Laval AB
BTR
British Aerospace
Carbo
Clarke Nickolls & Coombs
EW Fact
Hibernian
Hillsdown
Intl. Thompson Org.
Johnston Press
Lowe Howard-Spink & Bell
Novo Industri A/S
Renown
Shorco
Spandex
T & N
Wassall
Wood (Arthur)
Interims:
Fletcher Challenge
Gent
Logica
MAI
Pochin

DIVIDEND AND INTEREST PAYMENTS-
[illegible]

THURSDAY MARCH 16

COMPANY MEETINGS-
Countryside Props., The Brewery, Chiswell Street, E.C., 12.00
Egerton Tst., Savoy Hotel, Strand, W.C., 11.00
Evode Group, Tillington Hall Hotel, Eccleshall Road, Stafford, 12.00
Grahams Rintoul Inv. Tst., 30-32, St Mary Axe, E.C., 12.30
Kleinwort Charter Inv. Tst., 10, Fenchurch Street, E.C., 12.30
Newman Tonks, National Motorcycle Museum, Coventry Road, Bickenhill, West Midlands, 12.00
River & Mercantile Tst., New Connaught Rooms, Great Queen Street, W.C., 12.00
Warner Estate, Claridge's, Brook Street, W., 12.15

BOARD MEETINGS-
Finals:
[illegible]

DIVIDEND AND INTEREST PAYMENTS-
[illegible]

FRIDAY MARCH 17

COMPANY MEETINGS-
Brunner Inv. Tst., 10, Fenchurch Street, E.C., 12.45
Derby Tst., Hesketh House, Portman Square, W., 11.00

SATURDAY MARCH 18

BOARD MEETINGS-
Finals:
BSR Intl.

SUNDAY MARCH 19

DIVIDEND AND INTEREST PAYMENTS-
Treasury 11¾pc 2001/04 5¾pc

CONTRACTS & TENDERS

REPUBLIC OF THE IVORY COAST

Tender No. 2935/DMP

1. The National Telecommunications Office of the Ivory Coast has obtained a loan from the IBRD, in various currencies, to finance the cost of the project concerning the refurbishing of the equipment and the strengthening of the maintenance of services.

It is planned that a portion of the funds granted for this loan will be used to carry out payment for a project covering the modernisation and extension of the urban telephone network of Northern ABIDJAN.

2. The National Telecommunications Office invites, with this Tender, those candidates who are allowed to take part to present their bids under sealed envelope for the modernisation and extension of the urban telephone network of Northern ABIDJAN.

3. The candidates who are allowed to bid can obtain further information and examine the Tenders files in the Office of the Chef de Services des Marchés, located on the 12th floor of POSTEL 2001, door 12-07. Phone: 34.67.61 or 34.67.63 - Telex No. 23790 or 23750, ABIDJAN.

4. Any candidate who is allowed to bid and who is interested in the present Tender can buy a complete set of Tender documents, by writing to the above-mentioned Department, or after consulting the Charge Books, for a payment of around 400,000 CFA francs, which will not be paid back (by certified cheque or postal money transfer).

5. Each bid must be accompanied by a deposit on tender of 1.5% of the total amount of the bid. This deposit must be put forward at the same time as the Bids to the Services des Marchés, Immeuble POSTEL, 2001, door 12-07, ABIDJAN-CI at the latest on the 18th of April 1989 11.00 a.m. imperatively.

6. The files will be opened in the presence of the bidding representatives who wish to be present at the opening on the 18th April 1989 at 3.00 pm at La Rotonde de la Cité Financière, in ABIDJAN-PLATEAU.

COMPANY NOTICES

GLOBAL ALPHA STRATEGY FUND SICAV
comprising
PACIFIC ALPHA FUND
US/EUROPE ALPHA FUND

R.C. Luxembourg B 21433

Notice is hereby given to holders of shares in GLOBAL ALPHA STRATEGY FUND SICAV that the

ANNUAL GENERAL MEETING

of all shareholders shall be held at the registered office of the Company at 16, Boulevard Royal, Luxembourg, commencing at 11 a.m. on Monday 20th of March, 1989, to consider and vote upon the following agenda:

i) Submission of Directors' report for the year to 31.12.1988,
ii) Submission of Auditor's report for the year to 31.12.1988,
iii) Approval of the Annual Accounts for the year to 31st December 1988,
iv) Discharge to Directors of their duties,
v) Discharge to the Auditor,
vi) Payment of dividend.

Holders of bearer shares who wish to attend at the meeting should deposit their shares at the registered office of the company at least one business day before the meeting. Copies of the Annual meeting, including financial statements, will be available at the registered office 15 days before the date of the meeting.

The Annual General Meeting will be followed by an
EXTRAORDINARY GENERAL MEETING
of Shareholders to consider the following agenda:

i) Proposal, recommended by the board, to amend the Articles of Association of the Company in such manner as may be necessary to permit the company to obtain a licence in Hong Kong.
ii) Proposal, recommended by the board, to amend the Articles of Association of the Company in such manner as may be necessary to permit the company to re-register in Luxembourg under Part 1 of the Law of 30th March 1988.

Copies of the proposed changes to the Articles of Association are available in full from the Company.

Re: Bearer Warrants to subscribe for shares of common stock of Taiyo Kagaku Co., Ltd.
issued in conjunction with USD 50,000,000
5⅛ per cent. Guaranteed Bonds due 1993

NOTICE TO WARRANTHOLDERS

NOTICE IS HEREBY GIVEN, pursuant to Clause 4(A) and (B) of the Instrument (the "Instrument") by way of deed poll, dated 2nd February, 1988, made by Taiyo Kagaku Co., Ltd. (the "Company") in connection with the warrants (the "Warrants") to subscribe up to Yen 6,430,000,000 for shares of common stock of the Company as follows:-

The Board of Directors of the Company at its meeting held on 13th February, 1989 resolved that the Company make a free distribution of shares of common stock on 19th May, 1989, Tokyo time, to the shareholders of the Company registered on its register of shareholders at 15.00 hours, Tokyo time, on 31st March, 1989, at the ratio of 0.1 shares for each one share owned by such shareholders. Accordingly the subscription price of the Warrants shall be adjusted pursuant to the provisions of Clause 3(I) of the Instrument effective as from 1st April, 1989. The subscription price after adjustments is not known on the date of this notice due to an intervening issue of new shares of common stock scheduled to be made on 18th March, 1989 and will be notified as soon as possible after the same is determined.

13th March, 1989

Taiyo Kagaku Co., Ltd.

by Dai-Ichi Kangyo Bank (Luxembourg) S.A.
as Principal Paying Agent

NOTICE TO THE WARRANTHOLDERS OF SHIROKI CORPORATION
(the "Company")

U.S.$35,000,000 1 3/4 per cent. Guaranteed Notes 1992 with Warrants (the "Warrants")

Notice is hereby given pursuant to Clauses 3 and 4 of the instrument dated 18th June, 1987 (the "Instrument") relating to the Warrants, as follows:

(1) The Board of Directors of the Company at its meeting held on 27th February, 1989, resolved that the Company will make a free distribution of shares of its common stock on 19th May, 1989, Japan time, to the shareholders of the Company registered on its register of shareholders at 3.00 p.m. on 31st March, 1989, Japan time (the "record date"), at the ratio of 0.17 shares for each one share held.

(2) As a result of such free distribution the subscription price at which shares are issued upon exercise of the Warrants, which is currently Y615 per share, will be reduced to Y525.6 per share of the Company's common stock in accordance with Clause 3 of the Instrument. The new subscription price will become effective on 1st April, 1989, Japan time, which is the day immediately after the record date.

SHIROKI CORPORATION
13th March, 1989

PUBLIC NOTICES

CANADIAN NORTH ATLANTIC WESTBOUND FREIGHT CONFERENCE
CANADA - UNITED KINGDOM FREIGHT CONFERENCE

NOTICE TO SHIPPERS AND CONSIGNEES

CURRENCY ADJUSTMENT

The Member Lines of the above Conferences operating Services between Ports in the United Kingdom, North Ireland and the Republic of Ireland and Canadian Maritime, St. Lawrence River and Great Lakes Ports wish to refer to the previous Press Announcement in December 1988 regarding the Currency Adjustment Factor and would advise that for the period 1st April 1989 to 30th June 1989 the existing levels will remain unchanged.

Atlantic Container Line B.V.
Canada Maritime Limited.
Cast (1983) Limited
Hapag-Lloyd A.G.
Orient Overseas Container Line (UK) Limited

CANADIAN ATLANTIC FREIGHT SECRETARIAT LIMITED

Secretaries

Stoner House,
Kilnmead,
Crawley,
West Sussex RH10 2BG.

March 1989

Notice to Holders of

6¾% Convertible Subordinated Debentures due 2002
(the "Debentures")
of
Emhart Corporation
(the "Debenture Holders")

Section 1206(b) of the Indenture dated as of July 15, 1987 (the "Indenture"), between Emhart Corporation (the "Company") and Citibank, N.A. requires that the Company notify all Debenture Holders if the Company shall grant to all holders of its shares of Common Stock, par value $1.00 per share (the "Common Stock"), rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights. Accordingly, you are hereby notified that the Board of Directors has established March 20, 1989 as the record date (the "Record Date") with respect to the distribution to holders of shares of Common Stock of certain rights (the "Rights"). The rights will be effective and exercisable immediately after the Record Date.

The Rights are being issued pursuant to a Rights Agreement dated as of March 8, 1989 between the Company and The Connecticut Bank and Trust Company, National Association (the "Rights Agreement"). The Rights initially entitle the holders thereof to purchase one-two hundredth of a share (a "Unit") of Series A $10.00 Participating Preference Stock, without par value, at a price of $52.50 per Unit. A copy of the Rights Agreement may be obtained by writing to Emhart Corporation, 426 Colt Highway, Farmington, Connecticut 06032, Attention: Secretary.

Pursuant to Section 1204(4) of the Indenture, the Corporation has provided that each holder of a Debenture converted after the Record Date shall be entitled to receive, upon conversion of the Debenture, the same number of Rights to which a holder of a number of shares of Common Stock into which the principal amount of the Debenture was convertible immediately prior to the Record Date would be entitled on the Record Date in accordance with the terms and provisions of the Rights Agreement. As a result, there will be no adjustment of the conversion price of the Debentures.

Dated March 9, 1989

Emhart Corporation

RENTALS

LEGAL COLUMN

After Mackay there can be life for barristers

By Raymond Hughes

SEVERAL tantalisingly incomplete sketches for a hitherto unknown Victorian melodrama have recently been discovered in the corner of an attic in chambers in the Temple.

A curious feature is that each version, while using the same or similar characters, varies the basic plot, and it seems possible that they may have been the work of different hands.

There is considerable dispute between the more literary-minded members of the legal profession as to which is to be regarded as the definitive text.

One version, given the title Murder in the Inns of Court, has a character called Esmond Fennel found lying outside Middle Temple Hall, his life-blood leaking away. Protruding from between his shoulder blades is a dirk (or possibly it is a skean-dhu).

The unknown author appears to have intended that the main clue to the identity of the murderer would be given by the discovery on the weapon's hilt of threads from a distinctive Scottish tartan.

Another version's title is indistinct. It may be Mourning of the Bar or possibly (a Tennysonian allusion) Moaning of the Bar. In any event, it was apparently intended to bear the sub-title Or The Self-Fulfilling Prophecy. This version has Fennel, sometimes confusingly referred to as Feenil, shooting himself in the foot and staggering about crying "Murder!" before expiring from loss of blood.

A third draft, Esmond and the Black Knight, transposes the action of the drama to Arthurian times. Esmond is under attack by the Black Knight of the Thistle, the Lord of Slashburn, who, for some unexplained but obviously perverse reason, is determined to dispossess him and reduce him to penury. The White Knight, Sir Gordon of the Fayre Tradynge, gallops to the rescue in the nick of time, cleans Esmond up and restores him to something approaching his former status at the Round Table.

However, while all that is no doubt very fascinating for literary scholars, it is only fiction and therefore not a fit subject for further consideration in this column.

In the real world the debate continues about whether planned reforms will destroy the Bar, as the Bar Council goes on insisting

Back in the real world, the debate continues about whether Lord Mackay's planned reforms of the legal profession will, as the Bar Council goes on insisting, destroy the Bar.

One thing on which almost everyone is agreed is that it will be at least 10 years before the proposals have any real impact.

Most barristers are still declaring they have no intention to give up the independence of chambers for a desk in a solicitor's office. They, or at least those in specialist practice, believe there will be a continuing need for their particular expertise which it will not be in solicitors' interests to try to replicate in in-house advocacy departments.

Solicitors in the City say they have no plans to head-hunt barristers, because they prefer to be able to call on the services of the whole range of expertise offered by an independent Bar, rather than have an inevitably restricted spectrum in-house.

That, at least, is what they are saying publicly. Privately some are prepared to admit that it will need only one firm to break ranks and the rest will, lemming-like, join in the rush to sign up the leading commercial silks and juniors. Even though they know that it would not really be in their best interests, they would feel obliged to grab some of the pickings.

However, assuming that does not happen, it does seem likely that today's barristers will find themselves able to survive as independent practitioners, though they may well have to adapt organisationally.

As has been pointed out repeatedly in the current debate, one thing that would ensure the death of the Bar would be its inability to continue to persuade a sufficient number of graduates to become barristers rather than solicitors.

The Bar Council has been warned from several quarters that, if it is not careful, its claim that Mackay has put the black spot on the Bar will turn out to be a self-fulfilling prophecy.

The Lord Chancellor himself last week urged the Bar's leaders not to discourage potential recruits by "prophesies of doom and despair."

Anecdotal evidence suggests it is already becoming a problem. Some Cambridge law dons have apparently been advising their students against becoming barristers, and City University students, it is said, are tending to turn their backs on the Bar.

It seems clear the Bar, in addition to needing to adopt a more positive, up-beat approach to the problem, is going to have to offer some sort of financial incentive if it is to guarantee its long-term survival by continuing to attract bright graduates.

Remove the prospect of some years of financial uncertainty, or the need to have a supportive, well-heeled family, and graduates may well regard as attractive the opportunity to

Criminal lawyers may find things becoming more problematical if solicitors take advantage of the proposals

become members of a slimmed-down, independent specialist élite.

Two possibilities would be fee-sharing or starting salaries comparable to those offered by City solicitors. It would, of course, probably require the Bar changing from a chambers organisation to some form of incorporation or partnership – possibly the kind of fee-sharing, so-called quasi-partnership favoured by Sir Gordon Borrie, the Director General of Fair Trading, in his speech to the conference on the green paper, last week.

So it would appear there can be life after Mackay, at least for the specialist civil Bar. It is the criminal practitioners who may find things becoming competitively more problematical if more solicitors decide to take advantage of the opportunity the Mackay proposals give to become certificated advocates.

It has to be said, however, that enthusiastic though the leaders of the solicitors branch of the profession may be about increased rights of audience for their members, there is little evidence that many solicitors want to become advocates. If that is the case, the Bar's fears over the loss of its advocacy monopoly in the higher courts may be exaggerated.

That apart, an avenue open to barristers short of briefs would be the Crown Prosecution Service. This, with its chronic shortage of legally-qualified staff, would greatly benefit from an influx of experienced advocates. The pay may not be good, but the job is steady – so long as you don't want to write articles about the profession.

The debate continues.

LEGAL APPOINTMENTS

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1200)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	47.19	47.19xd	50.48	5.43	40000
Gilts & Fixed Int	6	112.60	112.60xd	119.50	8.37	40001
High Inc Equity	6	130.90	134.10	142.60	4.17	40002
Worldwide Bond	6	187.20	187.20xd	198.50	4.89	40003
Capital Growth						
American Growth	6	159.40	159.40	170.50	1.28	40004
Asian Pacific	6	81.96	83.63	88.96	1.21	40005
Assets & Earnings	6	159.60	159.60	170.70	2.32	40006
Capital Reserve Acc	0	83.66	83.66xd	83.67	4.78	40007
Commdty & Energy	6	97.51	97.51xd	104.30	0.00	40008
1992 Enterprise	6	54.74	55.78	59.33	3.03	46697
European Capital	6	77.39	77.39	82.78	0.91	40009
General	6	172.20	172.20xd	184.20	2.44	40010
Japan	6	103.70	105.40	112.10	0.00	40011
Mastertrust	6	79.84	79.84	85.40	1.72	40012
UK Growth Acc	6	198.70	198.70	212.60	1.60	40013
UK Growth Dist	6	133.30	133.30	142.60	2.39	40014
US Emerging Cos	6	46.24	46.24	49.46	0.00	40015
Income & Growth	6	289.50	295.90	314.70	3.02	40016
Ethical	6	48.14	49.33	52.47	2.38	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5¼	43.47	43.47	46.40	1.71	40022
Australian	5¼	22.44	22.44	23.95	1.18	40034
European	5¼	52.78	52.78	56.34	0.00	40025
Extra Income	5	42.34	42.34xd	44.94	4.93	40021
Fund Inv Tst	5	118.2	118.2	126.1	1.99	40080
Do Accum	5	180.1	180.1	192.2	1.99	40081
Gilt & Fixed Int	5¼	21.91	21.91xd	23.39	10.05	40026
Global Income	5¼	39.26	39.26	41.91	4.39	40027
Income & Growth	5¼	72.76	72.76	77.67	3.69	40029
Japan	5¼	172.7	172.7	184.4	0.01	40031
Nth Amer Inc (z)	5	26.87	26.87	28.52	4.37	40019
Special Situations	5¼	71.91	71.91	76.76	0.9	40032
UK Growth	5	36.79	36.79	39.05	2.51	40102
World Gwth	5	45.49	45.49	48.29	0.47	40020
Formerly Scottish Funds Management Ltd						
American Majors	5¼	61.27	61.27	65.40	3.20	41394

Buckmaster Mangmt Co Ltd (1200)H
The Stock Exchange, London EC2P 2JT 01-588 2868

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Emerging Gwth	5	65.87	67.58	71.70	1.52	40205
(Accum Units)	5	66.82	68.55	72.73	1.52	40050
Fellowship Tst	5	64.65	64.65	68.37	1.56	40206
(Accum Units)	5	65.89	65.89	69.68	1.56	40207
General Inc	5	304.70	312.1	331.1	2.30	40208
(Accum Units)	5	506.8	519.0	550.7	2.30	40209
Income	5	156.0	161.4	171.2	3.71	40210
(Accum Units)	5	298.3	308.47	327.2	3.71	40211
International	5	115.0	115.0	121.6	3.06	40212
(Accum Units)	5	156.9	156.9	165.9	3.06	40213
Smaller Co's	5	110.7	113.5	120.4	0.97	40214
(Accum Units)	5	121.7	124.1	131.7	0.97	40215
Inv Portfolio	2½	52.95	54.81	56.50	3.55	–
(Accum Units)	2½	53.91	55.79	57.52	3.55	–
High Income Port	3	48.39	48.57	50.33	6.50	–

Burrage Unit Tst Mangmt Ltd (0905)F
117 Fenchurch St, London EC3M 5AL 01-480 7216

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Sht Dtd Gilt & FI	1¼	52.16	52.16xd	52.93	11.37	40216

CCL Unit Trusts Ltd (1400)F
74 Shepherds Bush Green, W12 8SD 01-740 7070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK General Tst	5½	54.1	55.03	58.85	2.70	40217
Global Tst	5½	40.29	40.52	43.34	2.30	40218
Recovery Tst	5½	56.32	57.77xd	61.46	2.61	40219

CIBC Unit Tst Managers plc (1200)H
Cottons Ctr, Cottons Lane, Ldn. SE1 2QL 01-234 6000

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Fd Acc	5	105.3	106.6	112.5	3.51	40220

CS Fund Managers Limited (1000)H
125 High Holborn, London WC1V 6PY 01-242 1148

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
CS America	5	53.39	53.39	56.79	0.44	40221
CS International	5	53.57	53.57	56.98	1.79	40222
CS Japan	5	120.2	120.2	127.8	0.39	40223
CS Portfolio Inv $	5	70.29	70.29xd	74.77	1.92	40224

Canada Life Unit Tst Mgrs Ltd (1200)F
2-6 High St, Potters Bar, Herts 0707 51122

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Can Gen Dist	5	137.0	142.3xd	149.8	2.86	40225
Do Gen Accum	5	228.4	237.4	249.9	2.86	40226
Do Income Dist	5	94.85	98.70	103.9	4.71	40227
Do Inc Accum	5	213.1	221.9	233.5	4.71	40228
Gilt & Fxd Int	5	36.82	36.95xd	38.90	8.25	40229

Cannon Fund Managers Ltd (0700)H
1 Olympic Way, Wembley, HA9 0NB
01-902 8876. Dealing: 0800 282621

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth	5½	37.31	37.83	40.25	2.55	40230
Income	5½	46.94	47.77	50.82	4.09	40231
Far East $	5½	33.36	33.98	36.15	0.17	40232

[illegible]

Prudential Holborn Unit Tsts Ltd (1445)H
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377
Holborn LinkLine 0800 010345
Two Hourly Pricing

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Holborn Comm	6	68.71	68.71xd	73.49	0.34	41175
Holborn Equity Inc	6	68.95	68.95xd	73.74	4.61	41126
Holborn Equity	5	555.10	562.64	595.39	2.59	41177
Holborn European	6	111.19	112.42	120.24	0.60	41178
Holborn High Inc	6	86.40	86.40xd	92.41	5.90	41179
Holborn Intl Grth	6	109.80	109.80	117.43	1.08	41180
Holborn Intl Sm Co	6	47.85	47.85	51.18	0.05	41181
Holborn Japanese	6	152.54	152.54xd	163.14	0.04	41182
Holborn Nth Amer	6	75.10	75.43	80.68	0.73	41183

[illegible]

Prov. Mutual Unit Tst Mgrs Ltd
25-31 Moorgate, London, EC2R 6BA 01-588 3963

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
PM Equity Gth	5	119.1	121.3xd	129.0	2.77	41169
PM Income & Gth	5	105.3	107.0xd	113.8	4.19	41170
PM Nth Amer Gth	5	47.34	47.34	50.36	1.50	41171
PM European Gth	5	47.07	47.07	50.07	0.89	41172
PM Japan Gth	5	76.20	76.38	81.25	0.30	41173
PM Overseas Gth	5	48.86	48.86	51.97	0.91	41174

[illegible]

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

• For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

	Bid Price	Offer Price	Yield Gross	City-line
Pioneer Mutual Insurance Co Ltd				
16 Crosby Rd, N. Waterloo, Liverpool				051-928 6655
Managed Fund	291.9	307.3	–	43272
Man Pens Inc & Cap Fds	382.4	402.6	–	43273
Money Fund	117.6	123.8	–	43274
Pens Mngd Fd (Unit)	101.4	106.8	–	43275
Pens Mngd Fd (Acc)	121.0	127.4	–	43276
Pens FT30 Fd (Unit)	143.8	151.4	–	43277
Pens FT30 Fd (Acc)	171.6	180.7	–	43278
Pens O'seas MgFd(Unit)	72.4	76.3	–	43279
Pens O'seas MgFd(Acc)	86.3	90.9	–	43280
Pens Fxd Int Fd (Unit)	105.8	111.4	–	43281
Pens Fxd Int Fd (Acc)	126.2	132.9	–	43282
Pens Deposit Fd Unit)	103.6	109.1	–	43283
Pens Deposit Fd (Acc)	123.6	130.2	–	43284
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath				0444 458721
American	108.0	114.0	–	43285
Building Soc. Fd	168.0	177.0	–	43286
Balanced	274.0	289.0	–	43287
Deposit	168.0	177.0	–	43288
European	153.0	162.0	–	43289
GT Managed	174.0	184.0	–	43290
Gartmore Mngd	112.0	118.0	–	43291
German	104.0	110.0	–	43292
Gilt	174.0	184.0	–	43293
Global	48.0	51.0	–	–
High Inc.	114.0	120.0	–	43294
International Equity	179.0	189.0	–	43295
Japan	233.0	246.0	–	43296
Managed	62.0	66.0	–	43297
Property	276.0	291.0	–	43298
R. W. Imperial Gold	129.0	136.0	–	43299
UK Equity	373.0	393.0	–	43300
Pension Funds				
American	136.0	144.0	–	43301
Building Soc. Fd	166.0	175.0	–	43302
Balanced	212.0	224.0	–	43303

	Bid Price	Offer Price
Prudential Holborn Pensions Ltd		
30 Old Burlington St, London W1X 1LB		
Managed	537.3	565.6
Equity	784.2	825.5
Global Equity	214.9	226.3
Fixed Interest	401.1	422.3
Property	376.7	396.6
Cash	151.6	159.6
Index Linked Gilt	196.3	206.7
Guaranteed	12.00	
International Money	195.9	206.3
North American	59.0	62.2
Japanese	131.7	138.7
European	80.6	84.9
Special Situations	117.5	123.7
Communications	93.9	98.9
Smaller Companies	108.3	114.0
International Small Cos	116.5	122.7
Prudential Pensions Limited		
Holborn Bars, London EC1N 2NH		
Discretionary Mar 8	£147.84	152.96
Equity Mar 8	£163.15	169.09
International Mar 8	£23.61	24.35
Intl Bond Mar 8	£11.08	11.23
Fixed Int Mar 8	£71.90	72.86
Index Linked Mar 8	£60.50	61.26
Property Mar 8	£104.13	110.41
Cash Mar 8	£20.2250	20.2250
Pre-Linked Retirement Plan		
Managed Mar 1	368.7	384.1
Cash Mar 1	190.3	198.3
Prudential Pensions Investment Account		
Pens Mngd Mar 10	149.8	157.7
Pens UK Eq Mar 10	289.3	304.6
Pens Intl Mar 10	170.1	179.1
Pens Fixed Mar 10	165.3	174.1

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

BERMUDA AUTHORISED

GUERNSEY (**)

JERSEY (**)

JERSEY (SIB RECOGNISED)

FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN

LUXEMBOURG

OFFSHORE INSURANCES

OTHER OFFSHORE FUNDS

JERSEY

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
855	Treas 9½pc Cnv 1989	99	12.06	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	98¼	9.79	10.10	15Nov 15May	1327
1,400	Treas 10½pc 1989	99¼	12.51	7.11	14Dec 14Jun	1287
2,400	Exch. 10pc 1989	99¼	12.43	28.12	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99	12.32	20.2	27Mar 27Sep	1256
601	Treas 5pc 1986-89	97	10.14	9.3	15 Apr 15 Oct	1329
174	Exch 10¼pcCv '89	99½	11.06	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	100	11.75	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99¼	11.71	6.1	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	100¼	11.68	13.2	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	93¼	9.56	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	96	11.19	8.11	15 Dec 15 Jan	1340
955	Treas. 8pc Cv 1990 ‡‡	97¼	9.86	12.12	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	97	11.41	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	89¼	9.07	17.10	22 May 22 Nov	1270
2,200	Treas 11¾pc 1991	108	11.21	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	91¼	10.33	1.3	5Oct 5Apr	1275
400	Treas. 3pc 1991	88	9.06	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	98¼	10.53	6.12	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	100½	10.91	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	93	10.88	3.11	10Jun 10Dec	1335
900	Treas 12¾pc 1992‡‡	105	10.60	16.12	22Jul 22Jan	1297
1,600	Treas 10pc 1992	98	10.65	16.1	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	93½	10.66	7.3	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	99	10.59	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84	8.54	4.11	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	104	10.62	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	108½	10.53	13.2	22Mar 22Sep	1266
950	Treas 8¾pc 1993	95	10.43	17.1	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	99	10.31	9.3	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	107	10.36	8.12	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	87	9.53	6.2	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	112	10.35	17.10	23May 23Nov	1304
1,050	Treas. 8½pc 1994	93	10.32	28.12	3Aug 3Feb	–
600	Treas 14½pc 1994‡‡	116	10.21	23.1	1 Sep 1 Mar	1307

Five to Fifteen Years

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
1,100	Exch 13½pc 1994	112	10.36	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	99	10.13	2.11	9Dec 9Jun	1284
1,560	Exch. 12½pc 1994	108	10.34	16.1	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	95	10.07	11.10	17May 17Nov	1345
2,350	Treas 12pc 1995	107¼	10.31	19.12	25Jul 25Jan	1294
229	Exch 3pc Gas 90-95	77	7.76	26.9	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	100¼	10.19	15.12	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	112	10.17	10.10	15May 15Nov	1298
900	Treas. 14pc '96	127	10.32	16.12	22Jul 22Jan	1305
750	Treas. 9pc 1992-96‡‡	96	9.78	6.2	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996‡‡	124	10.24	27.9	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	115	10.20	10.10	15Nov 15May	1268
1,109	Conversion 10pc 1996	99	10.06	10.10	15May 15Nov	1240
1,500	Treas 13¼pc 1997‡‡	116	10.18	16.12	22Jul 22Jan	1302

Over Fifteen Years

BRITISH FUNDS—Contd

Undated

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
359	Consols 4pc	45	–	28.12	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	39	–	22.11	1Jun 1Dec	1382
140	Conv. 3½pc '61 Aft	70½	–	23.2	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	41	–	1.3	5Apr 5Oct	1324
276	Consols 2½pc	30½	–	1.3	5Ja Ap Jul O	1238
475	Treas. 2½pc	29	–	23.2	1Apr 1Oct	1315

Index-Linked

Amount £m	Stock	Price £	Red. Yld. (b)	Last xd	Interest Due	City-line
500	Treas 2pc IL '90(84.6)	127	2.51	19.12	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	106	3.27	14.2	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	98	3.31	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	144	3.38	7.2	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	124	3.46	15.2	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	122¼	3.48	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	125½	3.50	13.12	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	117½	3.50	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	122	3.49	17.1	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	102	3.45	10.1	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	110½	3.44	20.12	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	108	3.38	10.3	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	91	3.35	12.12	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for June 1988:106.6 and for January 1989:111.0

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

Market Cap. £m	Stock
6 883.5	Abbott Laboratories
260.3	Allegheny & W 1c
1,773.0	Amax $1
1,063.1	Amdahl 5c
2,621.4	Amer. Cyanamid $5
8,830.4	Amer. Express 60c
684.0	Amer. Medical Int. $1
18,934	American T & T. $1
8,758.1	Ameritech $1
	For Anheuser-Busch see ...
2,218.6	BankAmerica $1
1,744.2	Bankers N.Y. $1
8,592.3	Bell Atlantic $1
11,670.8	BellSouth Corp.
1,082.6	Bethlehem Steel $8
–	Bio-Rad Labs. A
596.7	Bowater Inc.
903.0	Brunswick 75c
2,467.1	CPC Intnl. 25c
2,903.4	CSX $1
107.4	California Engy
2,461.9	Campbell Soup 15c
1,540.7	Chase Manhattan $12½
1,994.2	Chem Banking Corpn
3,314.1	Chrysler $6¼
4,609.7	Citicorp $1
3.62	CityFed Fin. Corp
1,845.8	Colgate-Palmolive $1
659.8	Coast Freightways 62½c
1,111.0	Cont'l Bank Corp $4
17.7	Cont. Illinois Hldgs $1

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
–	♥A&M Gold Corp ‡	139p	–	–	–	–	–
–	♥Abbot Energy Corp	17p	–	–	–	–	–
763.2	♥Amer. Barrick Res.	13¼	–	–	–	–	–
–	♥Amer. Lightwave ‡	27½p	–	–	–	–	–
–	♥Armeno	18¼p	–	–	–	–	–
–	♥Asiamerica ‡	183p	–	–	–	–	–
–	♥Aquemitto Explo.	28p	–	–	–	–	–
1,442.5	Bk. Montreal ‡	13¾	$2.12	7.3	8.8	Fb My Ag Nv	–
1,289.1	Bk. Nova Scot. ‡	729p	84c	5.5	28.9	Ja Ap Jy Oc	–
4,829.8	BCE ‡	17¾xd	$2.44	6.6	6.6	Ap Jy Oc Ja	–
299.4	♥Bow Valley ‡	723p	♦40c	2.7	15.12	May Nov.	–
908.1	♥Brascan ‡	13¼	88c	3.2	28.10	Ja Ap Jy Oc	–
47.3	♥Breakwater Res.	211p	10c	2.9	–	–	–
2,654.1	Can. Imp Bank ‡	13⅛	$1.16	4.2	29.6	Fe My Au No	–
3,447.4	Can. Pacific ‡	11⅛	76c	3.2	28.9	July Jan.	–
18.0	Do. 4pc Deb £100.	38½	4%	10.4	24.11	July Jan	2051
–	Central Capital "A" ‡	430p	–	–	–	–	–
–	♥Corona Corp	424p	–	–	–	–	–
54.9	♥Coss TVX Min.	339p	–	–	–	–	–
–	♥Danbus Mem. Syst. ‡	20p	–	–	–	–	–
–	♥Derlan Inds. ‡	606p	11.75c	0.9	3.6	Mr Ju Se De	–
872.3	♥Echo Bay Mines	921p	$0.07	0.4	–	June Dec	–
–	♥ECO Corp ‡	430p	–	–	–	–	–
–	♥Energex Minerals ‡	11½p	–	–	–	–	–
65.9	♥Galactic Resources	221p	–	–	–	–	–
238.0	Gandalf Techs. Inc.	272p	–	–	–	–	5088
4.52	♥Geodome Res.	34p	–	–	–	–	–
35.9	Granges Explo ‡	165p	–	–	–	–	–
–	♥Gt. Pacific Res.	25½p	–	–	–	–	–
–	♥Gulf Canada ‡	747p	52c	3.3	26.3	Ja Ap Jy Oc	–
97.8	♥Hawker Sid Can ‡	12	$1.08	4.3	15.11	Ap Jy Oc Ja	–
–	♥Henlys Group	473p	–	–	–	–	–
362.2	♥Hudson's Bay ‡	12⅛	60c	2.4	2.10	Mr Ju Sp Dc	–
4,124.6	♥Imperial Oil ‡	25⅓	$1.80	3.4	26.11	Mr Je Se De	–
1,938.3	Inco ‡	18⅛	s$0.60	2.4	2.11	Jan Ap J.O.	–
–	♥Inland Nat. Gas $1	630p	60c	4.6	30.12	Fe My Au No	–
8.66	♥Madeleine Mines	148p	–	–	–	–	–
–	♥Muscocho Expln.	184p	–	–	–	–	–
–	♥Nevada Goldfields.	126p	–	–	–	–	–
490.4	♥Rio Algom	11½	$1.30	5.4	5.11	June Dec	–
2,783.3	Royal Bk. Can. ‡	19⅓	$2.20	5.5	19.10	Mr Je Se De	–
3,772.1	Seagram ‡	39½xd	US$1.40	2.0	28.2	Se De Mr Ju	–
–	♥Sonora Gold Corp ‡	99p	–	–	–	–	–
–	♥Spiral Eng ‡	73p	–	–	–	–	–
–	♥Tara Pure Tech. Corp ‡	84p	–	–	–	–	–
2,818.9	Toronto-Dom. Bk. ‡	19⅛	$1.12	2.8	22.12	F My Au No	–
900.9	♥Trans Can Pipe.	725p	68c	4.5	1.12	Ja Ap Jy Oc	–
276.5	Varity Corp ‡	167p	B–	–	11'77	–	–

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,191.5	ANZ $A1	262	s034½c	6.0	9.1	Feb July	1698
797.8	Allied Irish	291	F072%	5.2	28.11	Dec July	1354
1,226.6	Algemene Fl.10	£11¾	Q27%	6.4	23.8	Aug May	1567
14.5	Anglo Irish	73	Q0.95%	6.2	28.11	June Dec	1355
145.0	Ansbacher (H.) 1p.	78	2.0	3.5	21.3	April	1624
654.0	B'caire Cie Fr100	$46¼	g010%	2.0	9.5	May	2202
2,605.2	Banco Bilbao Viz.	£39¾	Q35.7%	3.1	9.12	Dec June	–
3,434.0	Banco de Santander	£30¼	Q21%	2.5	3.5	March Sept	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

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LEISURE—Contd

Market Cap. £m	Stock	Price	Div Net	Cvr	Y'ld Gr's	Last xd	Dividends Paid	City-line
78.6	HTV Ord β	124	b3.9		4.2	17.10	Nov. Apr.	2797
122.0	Hanlover A$0.25	277	†Q15c		3.9	1.11	Dec. June	2319
47.0	Hi-Tec Sports	121	L3.6		4.0	17.10	June Dec	5112
13.3	Int'l Media Com. 5p	17½	—		—	7'85	—	2483
15.7	Juliana's Hldgs 2p	74	†2.85		5.1	31.10	Nov June	3066
55.8	Kunick 10p	57	1.4		3.3	16.1	Mar. Jul.	4686
183.9	LWT 5p	218	5.7		3.6	28.11	Jan April	3233
167.1	Leisure Inv 10p	110	1.75		2.1	7.3	January	3151
54.3	Leisuretime Int 10p	91	—		—	5.87	—	3152
77.6	Marlec Dev. 50p	495	†Q2.0		0.5	13.2	November	3286
602.9	Mecca Leisure 10p	195	4.5		3.1	30.1	Mar Sept	3326
9.75	Medminster 10p	127	3.67		3.8	28.11	Apr. Dec.	3329
18.6	Metro Radio Grp 5p	196	13.0		2.0	—	—	1405
133.8	Midsummer Leis 10p	245	2.8		1.5	28.12	February	3394
33.7	Miss World 10p	515	8.0		2.1	31.10	Oct May	3394
8.49	Molinare Vision 50p	31	—		—	9'86	—	4598
20.3	Noble Raredon 5p	135	G1.33		1.3	—	—	2713
16.5	Odeon Ex Hds $0.125	167	—		—	1'84	—	—
72.4	Owners Abroad 3p	84	2.35		3.8	21.3	May	3574
6.79	Pavilion Leisure 10p	135	—		—	—	—	3611
25.4	Picc'dilly Radio NV5p	317½	†3.25		1.4	27.2	Apr Sept	3657
46.8	Pickwick	229	3.25		2.0	19.9	Sept. Mar	3658
44.2	Prestwich	121	†1.25		1.4	14.11	Apr Nov	3716
5.77	Prism Leisure 10p	144	†4.46		4.1	30.1	Feb Sept	3724
65.5	Quadrant Group 10p	238	F3.6		2.1	17.10	Jan July	3737
11.1	Radio City 'A' NV	503	6.0		1.6	12.12	—	3755
20.8	Radio Clyde	330	5.75		2.3	28.11	Jan July	3756
67.2	Really Useful Grp 5p	607	†15.0		3.3	27.2	May Dec	3788
50.2	Saga Group 20p	279	25.75		2.7	30.1	Apr. Nov.	3903
5.67	Scott. Ice Rink 2½p	848	—		—	—	April	5075
51.6	Scott. TV 10p	463	‡17.0		‡	31.10	Dec May	3965
2.26	SelecTV 10p	16½	—		—	—	—	3991
45.2	Stanley Leisure	266	†5.6		1.8	30.1	Feb. Sept.	4097
12.4	Sunset & Vine 5p	268	L2.4		1.2	—	—	5303
16.7	TSW 5p	88	3.15		5.3	17.10	May Nov	4322
134.9	TV-am 5p	285	†4.5		2.9	3.10	Dec. May	4162
218.5	TVS Entertain 10p	349	13.25		5.1	13.2	Mar Aug	4186
56.3	Do. 7.4pc Prf	113	7.4%		8.7	28.11	—	5184
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Cvr	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5.75	Propeller 1p γ	46	—	—	—	—	—	3729
2.56	Restaminster 5p γ	63	F2.0	4.2	30.1	—	—	5228
8.32	Royal Sovereign 10p γ	188	†4.6	3.3	3.10	—	May Nov	1505
1.40	Scott Pickford 10p γ	30	3.1	20.7	—	—	—	5062
8.33	Seacon Hldgs γ	128	Z1.0	1.1	19.9	—	October	3968
2.00	Sonic Tape 2½p γ	8	—	—	—	—	—	5152
3.87	Stats Hldgs. 5p γ	14	—	—	—	—	—	4625
3.92	Sunyard Studios 1p γ	2¼	—	—	—	—	—	4666
34.9	Takare γ	400	1.0	0.3	27.2	—	—	4647
4.37	Tomorrows Leisure 20p γ	59	—	—	—	—	—	4248
11.5	Tullow Oil 10p γ	16	—	—	24.2	—	—	4886
4.07	UPL Group 10p γ	181	L2.41	3.2	28.11	—	June	4362
7.49	Unit Group γ	145	F7.5	6.9	28.11	—	Jan July	4357
24.5	Whitegate Leisure 20p γ	28½	—	—	—	—	—	1105
1.07	Do. Wrrnts γ	16	—	—	—	—	—	1116
25.5	Wilton Group 1p γ	7¼	—	—	—	—	—	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♦ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	86	+1
Craig & Rose £1 γ	710	......
Finlay Pkg. 5p γ	93	......
Holt (Jos) 25p γ	1270	−5

IRISH

Cap. 8½% Ln. 1991	£100¾	+⅛
9pc Cap Ln. 1996	£100½	......
Fin. 13% 97/02	£121	......
Arnotts	480	......
Carrol (P.J.) γ	135	......
Hall (R. & H.)	140xd	−12
Helton Hldgs γ	74	......
Irish Ropes	165xd	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	49
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	65
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	48
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

A few missing billions may not help

WHEN MR Nigel Lawson, the Chancellor, stands up to deliver his Budget speech tomorrow he will, doubtless, refer to the UK trade deficit. He could claim that the underlying position is better than the monthly figures suggest, but would perhaps do well not to dwell on the point.

Rumours have circulated recently in the City that the trade figures are hopelessly pessimistic, and that last year's current account deficit was not £14bn but only about £7bn. Brokers' circulars have contained notes on the subject with headings such as "The Missing Billions", suggesting that the deficit has been overstated by between £5bn and £7bn. But are there, in fact, any missing billions and, if so, where have they gone?

The Central Statistical Office has attempted to find out with work which continues and is as yet on an experimental basis. At the weekend some of these experimental figures were contained in an article in the CSO economic trends bulletin, but the result was not as optimistic as the City hoped. Reaction on the foreign exchanges was muted, with sterling holding steady around DM3.2000 and showing more reaction to the US employment data, falling below $1.72 on fears that strong employment figures may lead to higher US interest rates.

The CSO adjustment shows that the UK current account surplus in 1985 may have been £4.5bn and not £3.3bn as previously thought. Figures have also been adjusted for the following years, but not as yet for 1988, although the Treasury says that some £15.2bn of income or expenditure has, apparently, disappeared. It would seem that about £3bn can be knocked from last year's deficit, on the basis of the CSO calculations.

Figures were also published on Friday showing the current account deficit for last year at £14.7bn, but these took no account of the CSO's adjustments. On the experimental figures, the shortfall for 1988 comes down to perhaps £11.5bn, but certainly not to the £9bn or £7bn that had been speculated about in the City.

The new figures have been arrived at on the basis that a deficit on the current account must be equal to a surplus on the capital account, but the figures simply do not balance. The problem the CSO has tried to solve is that the capital figures are very difficult to measure. There are some large sums to take into account, such as £90bn a day moving through London in foreign exchange trading.

Where the trade and capital accounts do not come into line, the CSO has been forced to put in an adjustment figure, known as the balancing item. As the figures have grown bigger - the current account has deteriorated from a surplus of £3.3bn in 1985 to a deficit of £14.7bn in 1988 - so the balancing item has become larger and the final result less reliable.

In an attempt to reduce the balancing item within the calculations, the CSO has looked for ways of bringing the trade account and the capital account closer together. The assumption is that the trade figures are not completely reliable on a monthly basis, and probably produce a pessimistic result.

The problem for Mr Lawson is that the trade mountain may be a little smaller than thought, but the steepness of the slope has not changed very much. Drawing a trend line through the new figures produces roughly the same angle as drawing a line through the previous data. The trend, therefore, has not changed, even if a few "missing billions" have seemingly been found.

As Mr Lawson himself has often said, it is the trend that should be looked at, and this may indicate why the markets were so unimpressed on Friday.

Colin Millham

£ IN NEW YORK

Mar.10	Close	Previous Close
£ Spot	1.7175-1.7185	1.7223-1.7230
1 month	0.42-0.39pm	0.42-0.40pm
3 months	1.16-1.12pm	1.17-1.15pm
12 months	3.15-3.05pm	3.23-3.13pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

(Only the first rows could be read.)

Mar.10	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	-	0.762453	0.650242
U.S Dollar	7	1.30814	1.11972
Canadian $	11.54	1.57081	1.34086
Austrian Sch.	4	17.1366	14.6392
Belgian Franc	7.75	51.0567	43.5850
Danish Krone	7½	9.49906	8.11067
Deutsche Mark	4	2.43563	2.08043

*All SDR rates are for Mar.9

CURRENCY MOVEMENTS

(Only the first rows could be read.)

Mar.10	Bank of England Index	Morgan** Guaranty Changes %
Sterling	95.8	-15.8
U.S Dollar	67.8	-10.5
Canadian Dollar	101.6	-1.5
Austrian Schilling	106.6	+9.6
Belgian Franc	105.8	-6.3
Danish Krone	102.9	-2.0
Deutsche Mark	112.6	+20.4

OTHER CURRENCIES

(Only the first rows could be read.)

Mar.10	£	$
Argentina	66.0660 - 66.2605	38.5000 - 39.5000
Australia	2.0840 - 2.0865	1.2150 - 1.2160
Brazil	1.7075 - 1.7165	0.9950 - 1.0000
Finland	7.4465 - 7.4680	4.3420 - 4.3440
Greece	267.65 - 272.15	155.30 - 157.80
Hong Kong	13.3815 - 13.3945	7.8000 - 7.8020
Iran	121.00*	69.75*
Korea(Sth)	1149.05 - 1158.30	670.20 - 675.60
Kuwait	0.49700 - 0.49900	0.28950 - 0.29050

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

(Only the last rows could be read.)

Mar.10	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
DM	0.313	0.537	1	69.48	3.393	0.854	1.128	734.0	0.644	20.97
YEN	4.505	7.730	14.39	1000.	48.83	12.30	16.24	10563	9.266	301.8
F Fr.	0.923	1.583	2.947	204.8	10.	2.518	3.326	2163	1.898	61.81
S Fr.	0.366	0.629	1.170	81.32	3.971	1	1.321	859.0	0.753	24.54
H Fl.	0.277	0.476	0.886	61.58	3.007	0.757	1	650.5	0.571	18.59
Lira	0.426	0.732	1.362	94.67	4.623	1.164	1.537	1000.	0.877	28.57
C $	0.486	0.834	1.553	107.9	5.270	1.327	1.753	1140	1	32.57
B Fr.	1.493	2.561	4.769	331.3	16.18	4.075	5.381	3500	3.070	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Employment data renew fear of Fed tightening

AS THE US unemployment level for February fell to 5.1 per cent, the lowest level for nearly 15 years, the money markets began to fear another bout of monetary tightening by the Federal Reserve.

Friday's announcement of the unemployment rate was accompanied by news of strong growth in non-farm employment. The growth in non-farm payrolls was 289,000 in February, well below the revised January rise of 415,000. It may not indicate a slowdown in the economy however, because there was an exceptional surge in construction activity in January, followed by a fall in February.

A rise in non-farm payrolls of more than 150,000 is probably regarded as too strong by the Fed, while unemployment levels of less than 6 per cent represent full employment, according to Mr Rupert Thompson, international economist at Morgan Grenfell.

Against this background the Fed can be expected to push the Federal funds target rate up to 10 per cent from 9¾ per cent, although a rise in the discount rate is probably out of the question. It would be another blow for President Bush, at a time when he has just suffered a political reversal over the Senate's rejection of Mr John Tower, as Defence Secretary.

UK clearing bank base lending rate 13 per cent from November 25

Any tightening may wait for January's trade figures on Wednesday and the next numbers producer and consumer prices. The trade deficit is expected to be little changed from December's $10.2bn shortfall, while data on prices are generally forecast to suggest inflationary pressures are increasing.

POUND SPOT- FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

(Only the last rows could be read.)

Mar.10	Day's spread	Close	One month	% p.a.	Three months	% p.a.
Denmark	7.23½ - 7.27½	7.25¾ - 7.26¼	1.40-1.00orepm	1.98	3.40-3.10pm	1.79
W. Germany	1.8555 - 1.8645	1.8620 - 1.8630	0.60-0.58pfpm	3.80	1.64-1.61pm	3.49
Portugal	153 - 153¾	153¼ - 153½	20-40cdis	-2.34	60-100dis	-2.08
Spain	115.60 - 116.10	115.90 - 116.00	12-17cdis	-1.50	59-66dis	-2.16
Italy	1362¾ - 1369	1366¾ - 1367¼	2.30-2.80liredis	-2.24	7.50-8.00dis	-2.27
Norway	6.75¾ - 6.78¾	6.77¾ - 6.78¼	0.52-0.73oredis	-1.11	1.50-1.80dis	-0.97
France	6.29½ - 6.33¼	6.31½ - 6.32	0.67-0.62cdis	1.22	1.65-1.55pm	1.01
Sweden	6.35¼ - 6.37¾	6.36¾ - 6.37¼	0.53-0.73oredis	-1.19	1.60-1.85dis	-1.08
Japan	128.80 - 129.70	129.40 - 129.50	0.59-0.57ypm	5.37	1.74-1.72pm	5.34
Austria	13.06 - 13.11¼	13.11¼ - 13.11¾	3.95-3.55gropm	3.43	11.50-10.30pm	3.33
Switzerland	1.5840 - 1.5940	1.5915 - 1.5925	0.58-0.56cpm	4.30	1.67-1.64pm	4.16

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.15-39.25.

MONEY RATES

NEW YORK

Treasury Bills and Bonds

(4pm)

Prime rate	11½	One month	8.65	Three year	9.59
Broker loan rate	10¾-½	Two month	8.80	Four year	9.56
Fed.funds	9⅝	Three month	9.05	Five year	9.48
Fed.funds at intervention	-	Six month	9.32	Seven year	9.41
		One year	9.56	10-year	9.34
		Two year	9.64	30-year	9.15

Mar.10	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	5.90-6.00	6.25-6.40	6.35-6.50	6.50-6.65	6.70-6.90	6.00
Paris	8¼-8⅜	8⅞-8⅞	8⅞-9	9⅛-9¼	9⅜-9½	7.25
Zurich	4⅞-5¼	5⅜-5⅝	-	5⅞-6⅛	-	-
Amsterdam	6.56-6.68	6.75-6.85	-	6.93-7.03	-	-
Tokyo	3⅞-3⅞	4⅞-4⅞	-	4⅞-4⅞	-	-
Milan	12⅞-13⅛	13¼-13⅝	-	13¼-13¾	-	-
Brussels	8.00	8⅛-8½	-	8⅜-8½	-	-
Dublin	7½-7¾	7¾-8	7⅞-8⅛	8⅛-8⅜	8½-8⅝	-

LONDON MONEY RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	FRI MAR 10: US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THU MAR 9: US Dollar Index	Pound Sterling Index	Local Currency Index	1988/89 High	1988/89 Low	Year ago (approx)
Australia (89)	137.99	-4.5	119.26	111.56	4.90	137.23	118.43	111.40	157.12	91.36	110.00
Austria (18)	101.88	+6.2	88.04	98.66	2.55	102.23	88.22	98.79	103.18	83.72	90.86
Belgium (63)	130.67	-3.3	112.93	126.32	4.10	131.32	113.33	126.79	139.89	99.14	135.94
Canada (125)	134.68	+7.3	116.39	116.78	3.28	133.73	115.41	116.25	137.27	107.06	120.98
Denmark (39)	167.42	-1.7	144.69	165.31	1.84	167.54	144.58	165.38	180.38	111.42	121.94
Finland (26)	140.64	+7.5	121.54	128.18	1.42	142.15	122.67	129.32	147.07	106.78	121.61
France (130)	114.25	-0.7	98.74	113.22	2.87	114.88	99.14	113.80	119.98	72.77	85.46
West Germany (102)	84.39	-4.1	72.93	81.71	2.31	84.16	72.63	81.45	90.40	67.78	78.98
Hong Kong (44)	127.86	+14.4	110.50	128.06	3.76	128.41	110.81	128.60	133.77	94.90	100.64
Ireland (17)	142.03	+7.8	122.74	139.65	3.68	142.59	123.05	140.01	146.46	104.60	120.03
Italy (98)	78.91	-7.3	68.20	80.56	2.65	78.63	67.85	80.27	86.88	62.99	76.89
Japan (456)	187.82	-1.9	162.32	153.69	0.49	188.23	162.44	153.49	200.11	133.61	163.10
Malaysia (36)	155.55	+8.4	134.43	164.69	2.71	155.83	134.48	165.22	159.79	107.83	117.08
Mexico (13)	162.81	+0.6	140.70	421.16	1.21	157.98	136.33	406.77	182.24	90.07	152.93
Netherland (39)	115.07	+2.4	99.45	110.37	4.57	115.44	99.62	110.64	116.50	95.23	106.85
New Zealand (24)	72.07	+0.6	62.28	61.93	6.25	71.91	62.06	62.09	84.05	63.32	77.07
Norway (26)	170.98	+23.1	147.76	157.34	1.82	172.87	149.18	159.02	174.29	98.35	116.85
Singapore (26)	142.22	+13.7	122.91	127.22	2.11	142.00	122.54	126.62	143.62	97.32	110.87
South Africa (60)	136.42	+16.7	117.90	121.72	4.13	134.63	116.18	120.12	139.07	98.26	115.98
Spain (42)	145.79	-1.8	126.00	128.06	3.76	145.06	125.18	127.20	164.47	130.73	145.96
Sweden (35)	156.13	+8.0	134.94	147.24	2.23	156.50	135.05	147.52	156.90	96.92	119.82
Switzerland (57)	76.51	-2.0	66.12	75.51	2.30	76.66	66.15	75.52	86.75	74.13	85.61
United Kingdom (314)	149.56	+10.5	129.26	129.26	4.28	149.10	128.67	128.67	152.54	120.66	138.98
USA (568)	119.29	+5.4	103.09	119.29	3.63	119.64	103.24	119.64	121.90	99.19	107.99
Europe (1006)	118.63	+3.4	102.52	109.26	3.53	118.50	102.26	109.03	120.68	97.01	109.38
Nordic (126)	147.54	+5.6	127.50	144.88	1.97	148.06	127.77	145.31	149.38	95.22	111.63
Pacific Basin (675)	183.24	-1.7	158.37	150.63	0.70	183.60	158.44	150.45	194.72	130.81	158.54
Euro-Pacific (1681)	157.41	-0.1	136.04	134.11	1.57	157.57	135.98	133.91	164.22	120.36	138.90
North America (693)	120.10	+5.5	103.80	119.17	3.61	120.38	103.89	119.46	122.71	99.78	108.68
Europe Ex. UK (692)	99.58	-2.0	86.06	96.83	2.90	99.64	85.99	96.83	103.11	80.28	91.03
Pacific Ex. Japan (219)	128.40	+3.1	110.97	112.11	4.36	128.19	110.62	112.17	137.65	87.51	103.62
World Ex. US (1879)	156.41	+0.2	135.18	133.54	1.64	156.52	135.07	133.31	162.77	120.26	138.27
World Ex. UK (2133)	141.32	+0.9	122.14	128.64	2.04	141.58	122.18	128.66	146.04	111.77	125.36
World Ex. So. Af. (2387)	142.08	+1.6	122.79	128.74	2.24	142.28	122.79	128.71	146.65	113.26	126.49
World Ex. Japan (1991)	120.10	+4.7	103.80	115.75	3.62	120.19	103.72	115.81	122.37	100.00	109.04
The World Index (2447)	142.04	+1.7	122.76	128.68	2.25	142.24	122.75	128.65	146.51	113.37	126.56

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

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CONSTITUENT CHANGES: Name changes: Kaufman and Broad to Broad Inc.(U.S)(8/3/89),Smidth (FL) B to FLS Inds.B (Denmark)(9/3/89) and Nedbank Group to Nedcor (South Africa)(10/3/89).

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS: 37,114

A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

[illegible]

JOTTER PAD

CROSSWORD

No.6,883 Set by DANTE

ACROSS

1 Cadger is a source of shame (8)
5 A quarter cent rise (6)
9 Looking round for a letter? (8)
10 Joins one in new tunes (6)
12 Record score (5)
13 She backs the replacement of a ten shilling note (9)
14 Young fellow – or one not so young (6)
16 US city that was smart in the past (7)
19 Read out with spirit – important for listeners (3-4)
21 The address of a Spanish woman (6)
23 Refusal to give credit? (9)
25 Musical gun-shooter is possibly inane (5)
26 Type inclined to be emphatic (6)
27 Objects when the claret is shaken up (8)
28 Get out of position? (6)
29 Status symbols? (8)

DOWN

1 Becoming respectable (6)
2 A pick-me-up for the sick? (9)
3 Hooligan on the golf course (5)
4 Music room (7)
6 Feeling one isn't as confused (9)
7 We hear school meals should be this (5)
8 He's been willing to try to set up a roster (8)
11 An element of jazz in classical music (4)
15 See trivia as an odd collection of different things (9)
17 It's released when one is agitated and in real trouble (9)
18 A blow that has to be faced (8)
20 Leading sea power (4)
21 A shade reserved for fans (7)
22 Paid companion shows his age when in trouble (6)
24 The way a politician may indicate annoyance (5)
25 A Liberal needs one as an excuse (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 25.

WORLD STOCK MARKETS

AUSTRIA — BELGIUM/LUXEMBOURG — DENMARK — FINLAND — FRANCE — FRANCE (continued) — GERMANY — GERMANY (continued) — ITALY — ITALY (continued) — NETHERLANDS — NORWAY — SPAIN — SWEDEN — SWITZERLAND — SOUTH AFRICA — AUSTRALIA — HONG KONG — SINGAPORE — JAPAN

[illegible]

CANADA

TORONTO

Closing prices March 10

[illegible]

MONTREAL

Closing prices March 10

[illegible]

Total Sales 5,619,635 shares.

INDICES

NEW YORK DOW JONES

	Mar 10	Mar 9	Mar 8	Mar 7	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2282.14	2291.43	2295.54	2290.71	2347.14 (7/2/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	87.95	88.15	88.26	88.28	91.25 (3/3/88)	86.12 (4/1/88)	–	–
Transport	1064.20	1066.14	1059.18	1059.67	1087.97 (7/2/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	182.37	182.91	183.20	183.14	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2295.54 (2306.61) Low 2261.61 (2282.86)

STANDARD AND POOR'S	Mar 10	Mar 9	Mar 8	Mar 7	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite‡	292.88	293.93	294.08	293.87	299.63 (7/2/89)	242.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	338.17	339.43	339.81	339.55	346.41 (7/2/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	26.69	26.79	26.70	26.65	27.24 (7/2/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	164.85	165.36	165.45	165.28	168.02 (7/2/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	328.92	329.36	329.15	328.83	329.36 (9/3/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	405.90	405.67	406.40	406.18	409.19 (7/2/89)	331.97 (12/1/88)	455.26 (26/8/87)	54.87 (31/10/72)

	Mar 3	Feb 24	Feb 10	year ago (approx.)
Dow Industrial Div. Yield	3.70	3.75	3.63	3.38
	Mar 8	Mar 1	Feb 22	year ago (approx.)
S & P Industrial div. yield	3.16	3.23	3.18	2.93
S & P Indl. P/E ratio	13.04	12.68	13.48	15.41

TRADING ACTIVITY. †Volume Millions / NEW YORK

[illegible]

CANADA

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

	Mar. 10	Mar. 9	Mar. 8	Mar 7	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1468.8	1486.5	1491.7	1507.6	1657.0 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	693.2	693.9	695.2	699.9	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	255.01	255.18	254.57	(u)	255.18 (9/3/89)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	5689.1	5708.96	5736.07	5745.68	5834.01 (10/2/89)	3608.35 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	283.24	282.93	284.10	286.21	291.83 (10/2/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	786.3	784.0	782.7	784.1	786.3 (10/3/89)	530.6 (25/1/88)
FRANCE						
CAC General (31/12/82)	439.4	439.0	439.7	444.8	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	102.8	102.9	102.4	103.6	108.1 (3/2/89)	97.5 (27/2/89)
GERMANY						
FAZ Aktien (31/12/58)	555.83	554.02	553.24	559.64	569.27 (8/2/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1654.7	1649.1	1647.2	1666.5	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1318.51	1319.42	1317.77	1324.06	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3046.81	3062.79	3058.65	3080.68	3209.96 (9/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	582.51	580.28	581.13	584.70	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	31701.78	31656.45	31837.66	31937.9	32452.49 (23/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2408.24	2403.61	2421.78	2427.10	2490.07 (8/2/89)	1690.44 (4/1/88)
NETHERLANDS						
CBS TU. Rtn. Gen. (End 1983)	223.4	223.7	223.3	224.6	224.6† (7/3/89)	208.3† (3/1/89)
CBS All Shr (End 1983)	178.7	178.9	178.7	179.6	179.6† (7/3/89)	166.7† (1/3/89)
NORWAY						
Oslo SE (4/1/83)	585.34	587.75	585.04	590.14	590.14 (7/3/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1154.86	1150.76	1136.96	1132.40	1177.87 (8/8/88)	833.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1591.0	1539.0	1534.0	1462.0	1591.0 (10/3/89)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	2339.0	2337.0	2342.0	2303.0	2342.0 (8/3/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	276.16	274.32	273.28	272.32	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3825.50	3822.96	3814.40	3814.80	3825.50 (10/3/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	648.0	647.9	645.5	646.5	652.1 (22/2/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	503.1	506.2	506.6	519.0 (19/2/89)	401.0 (21/1/88)

‡ Subject to official recalculation. † 1989 High & Low.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 10 March 1989

[illegible]

4pm prices March 10

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
28⅜	21⅝	AAR	.44	1.6	19	103	27⅞	27⅝	27⅝	
10⅛	8⅞	ACM n	1.01	11.		84	8⅞	8¾	8⅞	+ ⅛
12⅛	10¼	ACMIn	1.28a	12.		384	10¾	10½	10⅝	
10⅛	8½	ACM M	n1 01	11.		181	9	8⅞	8⅞	- ⅛
12⅛	10⅛	ACM Sc	1.26	12.		695	10⅝	10½	10⅝	
10⅛	8½	ACMSp	n.85e	9.4		458	9	8¾	9	+ ⅛
5⅛	2⅝	AMCA	.12e	3.0		20	4	3⅞	4	+ ⅛
6⅛	3⅜	AM Inp				864	5⅜	5⅜	5⅜	- ⅛
23⅛	18⅝	AM Int pf	2	8.8		75	22⅞	22¾	22¾	- ⅛
62⅛	39	AMR			8	4502	61	59¾	61	+1⅜
26⅛	25	ANR pf	2.67	11.		3	25¼	25¼	25¼	
9½	4⅞	ARX				55	6⅛	6¼	6⅜	
49⅝	35¼	ASA	3a	7.1		1013	42½	42	42⅜	+ ⅜
20⅛	14⅜	AVX	.24	1.3	9	61	18	17⅞	18	
52⅝	42⅞	AbtLab	1.20	2.3	16	3310	52⅛	51⅝	52	- ⅛
20⅛	15⅛	Abitibi g	1			463	16⅝	16⅜	16½	
13⅞	7½	AcmeC	.40	3.8		17	10⅝	10½	10⅝	+ ⅛
8½	5⅞	AcmeE	.32	4.5	25	22	7⅛	7	7⅛	- ⅛
30⅛	20⅛	Acuson			24	144	27⅞	27⅜	27⅞	- ⅛
16⅞	14½	AdaEx	1.82e	12.		242	14¾	14⅝	14⅝	
16⅞	7⅛	AMD			10	2718	8⅜	8⅛	8⅜	
43½	28⅛	AMD pf	3	9.4		103	32	32	32	+ ⅛
8½	6½	Adobe				153	7⅛	7⅛	7⅛	

Continued on Page 39

NYSE COMPOSITE PRICES

12 Month High Low Stock Div. Yld. P/E Sls 100s High Low Close Quote Ch'ge Prev. Close

Continued from previous Page

OVER-THE-COUNTER

Nasdaq national market, 4pm prices March 10

AMEX COMPOSITE PRICES

4pm prices March 10

The Business Column

Ambiguity as virtue in corporate decisions

Business people are forever being told by their advisers to make dangerously black-and-white choices. The Boston Consulting Group's once-fashionable portfolio matrix invited top managers to pigeon-hole their different businesses into mutually exclusive categories, and treat them accordingly: "cash cows" should be milked, "dogs" divested, "stars" nurtured, and so forth.

Today's equivalent conventional wisdom is based on the "generic strategies" concept of Harvard's Professor Michael Porter, who says that companies must choose between "differentiating" their products and services (via quality, performance and so on), or becoming the lowest-cost producer in their industry.

A similar "either-or" view underlies the fashionable debate about whether companies should direct their efforts at mass markets or niches, and whether their product and service strategies should be global or local. In the words of a stimulating paper* on "strategic choice and the management of dilemma," by a pair of academics from the London Business School and Bath University, "popular legend on decision-making has heroes standing at the cross-roads, nailing themselves to decision 'trees', and making inexorable life-or-death decisions."

As the paper points out, the reality is very different. Far from being a series of simplistic choices, the essence of effective management is the reconciliation of opposites – what In Search of Excellence called the management of ambiguity and paradox.

This is not only true in strategy (differentiated AND low-cost, mass market AND niche, global AND local), where the Japanese have become masters at getting the best of all worlds. It also applies in organisation structure, where companies are striving for a balance between the decentralisation and co-ordination of functions, departments and business units.

Difficult balancing act

Ambiguity is also at work in the vexed question of ideal organisation size. Popular debate constantly revolves around the virtues of large versus small. Yet well-managed western multinationals such as 3M and Hewlett-Packard learned long ago that the real trick is to combine large scale in some elements of their value chain (finance, research, purchasing, and sometimes marketing) with small-scale in others – especially the size of business units and, wherever possible, factories. All sorts of companies are now trying to emulate this difficult balancing act.

By analysing the contrasting degrees to which companies in the British domestic appliance industry have been able to reconcile a wide range of strategic and organisational dilemmas, the LBS-Bath study makes a valuable contribution to the debunking of simplistic decision theory – even though it errs in the opposite direction in its use of complex cyberactic concepts.

The authors, Charles Hampden-Turner and Charles Baden-Fuller, show that in the period under study (to 1987) GEC-Hotpoint was able to reconcile every type of dilemma more effectively than Creda (owned by Tube Investments at the time, and subsequently bought by GEC). Creda, in turn, was streets ahead of Thorn-EMI's appliance business, which the study claims was unable to resolve any dilemma whatever. For instance, Hotpoint was most adept at attacking the mass market while also pitching at niches. Thorn oscillated between the two approaches, with less effect in either.

The researchers also found that Hotpoint ranked first in its recent financial performance, making a near-13 per cent return on sales by 1986. Creda was not far behind with a return of over 9 per cent. Poor Thorn, on the other hand, made a thumping loss in its appliance business before it was sold for a song the following year.

The study did not prove the impact of dilemma-management on profitability, but it argues that the relationship looks "suspiciously strong". That is quite an understatement, to put it mildly.

* *Working Paper No 51, Centre for Business Strategy, London Business School.*

Christopher Lorenz

THE MONDAY INTERVIEW

Car maker with an eye on new horizons

Andrew Fisher talks to Carl Hahn, head of VW

From his 13th-floor office in Wolfsburg, Carl Hahn can look across to one of the most potent symbols of West Germany's post-Second world War economic strength – the four chimney towers of the Volkswagen power station which supplies the main plant of the world's fourth largest car producer.

The 410 ft towers are a striking, if stark, local landmark. Below them stretches the world's biggest car factory under one roof, turning out 4,000 vehicles a day. But the VW chairman's words and thoughts range well beyond Wolfsburg, originally chosen because it was in the country's centre but now hugging the East German border.

VW, 50 years old last year, has long outgrown its home town and its pre-war Nazi origins. Propelled along initially by the success of the Beetle in the US, the group has spread far outside its domestic and neighbouring European markets. In fact, the loquacious Mr Hahn seems almost to have the world at his fingertips when he discusses the company's presence in Europe (East and West), America (North and South), and Asia, where it has powerful ambitions, especially in China.

He is excited by the "sheer statistical opportunities" in the Far East. "When you consider all the forecasts being made for the Pacific basin, we are in a good position for the period beyond the year 2000." VW's large Santana models have been manufactured in China since 1985. Last year, the company signed a deal under which about 150,000 models of its Audi subsidiary will be produced there annually from 1996.

Asia, says Mr Hahn, could thus become a third pillar for VW, next to Europe and the Americas. "We could grow to similar proportions as in Europe." He cites the operation in Brazil – now part of the Autolatina partnership with Ford – where VW is of more relative importance to the local economy than it is at home in its own country.

The 62-year old Mr Hahn, who retires in three years, has no trouble thinking globally. Born in Chemnitz, now Karl-Marx-Stadt in East Germany, he was educated in Germany, England, Switzerland, and France, his studies spanning business administration, economics and politics. He was later in charge of VW's sales drive in the US at a crucial time in the early 1960s and it was there he met his wife. "I am married to an American, my children are American. With all these elements, I feel at home almost anywhere."

Because his father was Austrian, he does not have a German passport. "I am a traditionalist with an Austrian passport, working for a company which had an Austrian-designed automobile." (Ferdinand Porsche, conceiver of the Beetle, was Austrian.) "Of course, I feel German," he says, having lived so long in Germany. "But more than that, I feel European."

Mr Hahn joined VW under the legendary Heinz Nordhoff in the 1950s. Nordhoff, appointed by the British, was dubbed "King Nordhoff," but Mr Hahn says this did not do him justice. "Nordhoff was a man who didn't like big shows." Originally with Opel, part of General Motors, he was refused a job after the war by the Americans because it had built military trucks. This rejection was a boon for VW. "Nordhoff was number one, an engineer; and number two, a man who had had an excellent GM education. But more important, he was an entrepreneur of enormous instincts, political, social, and technical." It was he who developed the Beetle into the foundation of VW's success. He also strove to weld together a workforce of displaced and demoralised people. "He had to encourage workers who earned very little and who had come as refugees with no possessions and no roof over their heads."

Nordhoff provided Hahn with his big chance in the US in 1959. "Nordhoff gave me every freedom you could imagine," he says of his five years as head of VW of America. "In those days, the American customer who wanted a sensible, economic car could not get this from Detroit." Under Mr Hahn, VW built up Beetle sales in the US by stressing service and reliability through a loyal dealer network. "We worked like an Olympic team."

The results were dramatic. "It was the opportunity of a lifetime," he recalls. "Rarely is anybody offered the right product at the right time, with the rest of the world having to follow. It gave us an almost unlimited market. This enabled us to earn the money to grow to the basic size you need to exist in today's automotive world. In the fragmented Europe of those days, with protected markets and small overall volume, I think we could never have grown to those proportions so fast and so early."

By the time Mr Hahn returned to Wolfsburg in 1964, VW was selling more than 300,000 cars a year in the US. The following year, post-war output of VW passed 10m vehicles. Today, it produces nearly 3m vehicles a year, mainly in Germany, Spain (where it owns SEAT), Belgium, South America, South Africa, and China.

VW's global ties also extend to Japan, where it is linked with Nissan to produce Santanas. It also has a joint truck venture at its Hanover plant with Toyota. Just across the border, it has built an engine plant at Karl-Marx-Stadt, where Mr Hahn was born. Some of these engines will be bought by VW for its own use.

With turnover of DM 60bn (£19bn) last year and net profits well up on 1987, VW is riding high. Losses have been eliminated at SEAT and in South America and slashed in the US where it took the controversial step last year of closing its plant. In Germany, a tougher line on costs and a cut in the labour force is also paying off, though Mr Hahn recognises VW still has far to go in matching the cost levels of its European competitors.

The success of the Beetle gave VW the funds to invest in modern plant and thus offset its high labour costs. "VW was based on one design and grew via the US market to proportions which we could never have banked on." Now, it has three well-known marques: from the cheap SEAT Marbella through the VW Golf and new top-of-the-range Passat up to the classier Audi models.

SEAT, in which VW bought a majority stake two years ago, plays a large part in the group's investment plans. VW aims to boost its small car production, including Polos, in one of Europe's lowest cost and fastest growing markets.

This is partly with an eye on the European single market after 1992, in which Mr Hahn sees vast opportunities. But competition will clearly intensify, not only from Japan but also from South Korea, which he sees as both a growing rival and, like China, a sizeable potential market. He contrasts the dynamism of Korea at its present growth stage with the more comfortable attitudes now prevalent in Germany.

"The Koreans are now at the wage levels of Germany in 1950, and then the Germans worked as many hours as the Koreans do today" – around 2,200 a year. Asian educational levels are also high. "They are as capable of producing and developing sophisticated high-tech products as we are."

So the rise of other Asian nations besides Japan is something the European industry will have to adjust to. "By the year 2000, Korea will be an automobile manufacturer of the size of Germany." VW's trade unionists understand this threat, he says. "They know they have to compete with these countries to maintain employment. Nobody can protect us, when we have an export dependency of 60 per cent or so."

But VW also wants to serve the growing Asian markets. "This is why we have established a presence in China, to be ready for this gigantic consumer market." Looking to the more open European market of the 1990s, Mr Hahn is confident of VW's continuing ability to meet Japanese competition; unlike some EC members, Germany has no curbs on car imports. But he is cautious on the speed at which the Japanese should be allowed in to the rest of Europe. "We also have no interest in this becoming an avalanche which destroys the benefits of the common market for the European worker."

Yet he believes European industry has to prove it can compete by opening its markets to the rest of the world. "We should have the self-confidence as Europeans not to classify ourselves as non-competitive, which would mean prolonged protectionism."

This, at least, is a challenge common to the whole industry. But it was only two years ago that VW was shaken to its foundations by a costly foreign exchange fraud which put the group on the defensive. As then, Mr Hahn exudes a sovereign calm about the affair. "You are never free of accidents in this life," he remarks. "It's like stopping at a red light and being hit from behind."

On balance, he reckons, VW has made the right decisions in the seven years he has been chairman. His spell away from the company, turning round the stricken Continental tyre company, also helped. He left VW because he did not see eye to eye with Rolf Leiding, then chairman. At Conti, "I had to do everything. I was in a company which was desperate and which had to be restructured on a worldwide scale.

"I had to do all this under difficult conditions, while what I do here, I do under ideal conditions." Adds Mr Hahn, a keen rider, sailor, and skier: "It's a little like wanting to be good at running one kilometre. If you practise 10 kilometres all the time, it is very easy when you only have to run one. You don't tire so easily." Thus when things are going well, his job is its own reward – "as long as you don't get what the French call *folie de grandeur* and the Germans *Grösenwahn* (megalomania), and I don't think I'm liable to this."

PERSONAL FILE

1926	Born in Chemnitz (now Karl Marx Stadt in E. Germany) Educated Cologne, Zurich, Bristol, Paris, and Berne Universities
1954	Export Promotion Manager at VW
1959	Chief Executive of VW of America
1965	Board member of VW
1973	Chairman of Continental Gummi-Werke
1982	Chairman of VW

'Of course I feel German – but more than that, I feel European'

Parliament must act on mental health issue

JUSTINIAN

Five Law Lords have been grappling this last fortnight with a socio-medical problem which involves heavy ethical overtones. They have been trying to fit into the legal structure the decision-making process of whether a mentally handicapped woman should in her own best interests be sterilised in circumstances where she is totally incapable of giving any kind of consent.

The courts have had no trouble in authorising such treatment for children, since there has always existed a jurisdiction to make them wards of court and for the court then to determine what should happen to them, including such operations as sterilisation. But in the case of adults there has recently appeared to be no legal machinery for dispensing with consent to invasive medical treatment.

When the present case came before the courts last December, brought jointly by the woman's mother, the doctors and the health authority, asking the court to declare that the operation of sterilisation would be lawful, it appeared that no medical treatment of any adult in the position of this mentally handicapped woman would be lawful.

The courts were naturally reluctant to turn away the applicants, leaving the matter in doubt and possibly leading to a refusal on the part of the doctors to carry out the sterilisation. If there was any risk that what they were doing was unlawful, they might not wish to expose themselves.

With the exception of sterilisation and abortion, no doubt seems to have been cast on the lawfulness of doctors treating adult patients for a wide range of medical conditions though they are incapable of giving their consent. In the case of emergency, the law has always recognised any necessary treatment as lawful. That aside, however, when surgery is the type of treatement required the operation demands the patient's consent. Without the consent, the assumption made by doctors and others has been that their actions were implicitly sanctioned by the law. But on what principle?

The Court of Appeal earlier this year adopted the test that what is best calculated to promote the true welfare and interests of the patient has the law's blessing. Lord Donaldson said he found nothing incongruous in doctors and others who share the responsibility for the care and treatment of patients being required as a matter of professional duty to act in relation to an incompetent adult and exercise a right of choice as would a parent for its child.

Two problems presented themselves to the Law Lords. What is the basis for the court's jurisdiction; and what machinery is required of the law if and when parties need court approval? The most obvious basis for the court's power is the sovereign's paternal relationship to every individual within the realm, following the jurisdiction exercised over children. But that jurisdiction, if it ever existed, has been swept away by the Lunacy Acts of the last century. The alternative seems to be to turn to the Court of Protection.

This court, which emerged originally within the Chancery branch of the courts as a Court of Lunacy, now administers powers under the Mental Health Act 1983. If the court is satisfied that there is sufficient medical evidence to establish that "a person is incapable, by reason of mental disorder, of managing and administering his property and affairs," the court may take control over the patient's property.

This jurisdiction is solely and exclusively concerned with furnishing practical machinery to secure patients' property, and is not available for the court to exercise control over patients themselves.

The Law Lords, however, have been invited to say that the word "affairs" is wide enough to encompass a multiplicity of purposes.

There would clearly be no enthusiasm among the officials who administer the Court of Protection to be involved in processing a string of applications for authority to perform sterilisation or other operations on mentally disordered patients.

The alternative would be for the Law Lords to endorse the approach of the Court of Appeal. That court did not think that a declaratory judgment was appropriate, because all that the court would be declaring was that, had a course of action been taken without resort to the courts, it would have been lawful anyway. Instead it said that the doctors and others caring for the patient should in future seek positively the express approval of a judge of the Family Division of the High Court.

The worry among professionals in the mental health system is that people will be forever trooping to the High Court for approval of a range of medical treatments and having issues that are inappropriately assigned to courts being determined by an adversarial process.

The dilemma faced by doctors and others where a patient, due to a mental condition, is permanently unable to give meaningful consent to treatment has frequently been raised with the Mental Health Advisory Commission whose teams of commissioners have been visiting hospitals since 1984. If a patient in a doctor's care needs treatment and the doctor does nothing, it might be said that he is failing in his duty. Yet the doctor may be concerned about his potential liability if he proceeds to give treatment without consent. This dilemma is not addressed by the Mental Health Act 1983 unless the treatment is specifically for mental disorder and the patient is detained under the Act.

If the law's insistence on prior judicial approval for sterilisation would involve only a handful of cases, what about a whole range of less emotional but no less contentious treatments? Whatever their lordships utter when their judgments are delivered next month, Parliament will surely have to sort out this socially intractable problem.

SECTION III

FINANCIAL TIMES
SURVEY

The post-war financial system of the world's biggest supplier of money is being dismantled. Deregulation has succeeded in opening up the market to a great extent but change in the remaining key areas will be a gradual process, writes Stefan Wagstyl

Uneven impact of reform

THE TOKYO financial revolution of the 1980s was once expected to set Japanese companies free to dominate world markets.

Unleashed by financial deregulation and borne by the tide of the country's prodigious wealth, Japanese financial groups were expected to sweep aside Western rivals, just as the car and electronics companies had done before them.

Things have so far turned out rather differently. Neither the highest hopes of Japanese companies nor the worst fears of their US and European competitors have been fulfilled.

At home and abroad, Japanese companies are running into political and commercial barriers which make it difficult for them to capitalise on their immense size. They will continue to expand around the globe, but more slowly and cautiously than was once believed.

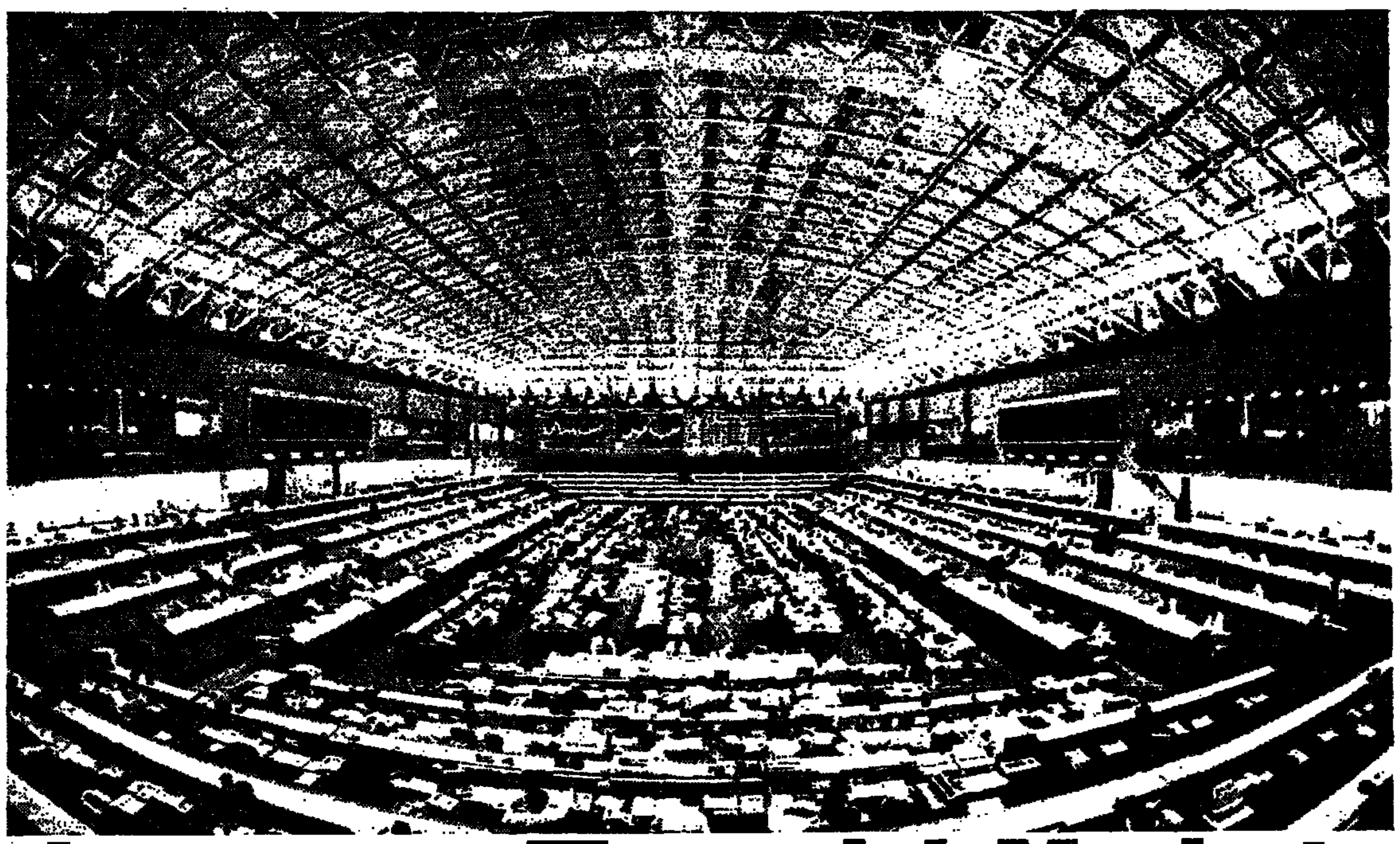
For one thing, the continuing strength of the Japanese yen and of the Japanese economy has made it much more attractive for Japanese investors to keep their money at home than overseas. It will be some time before confidence in foreign markets recovers from the blow it received on Black Monday.

For another, the opportunities at home are both bigger than they were and more difficult to exploit. The mountain of Japanese savings grows ever larger. While the savings ratio is off its peak of 25 per cent in the 1970s, it is still about 17 per cent, compared with 3 per cent in the US and 5 per cent in the UK.

Meanwhile, continuing deregulation means the ground is constantly shifting in Tokyo. The post-war financial system, built at a time of credit shortages, is being dismantled and replaced by something fit for a period when Japan has become the world's biggest supplier of money.

In theory the goal is to create free financial markets, in accordance with the principles of textbook economics and with the demands of foreigners who claim the highly-regulated post-war system discriminates against outsiders.

In practice, the impact of reform has been uneven. Certainly, in key areas, the system is more open to market forces than it was, notably in the deregulation of interest rates. Leading commercial banks now have to raise more than 40 per cent of their funds at market rates. Important new markets have been created, most recently in stock index futures. Also foreign companies have won access to a wide range of markets, including membership of the Tokyo Stock Exchange.



Japanese Financial Markets

But rules governing the segregation of different businesses – the cornerstone of the post-war system – remain intact. In particular, banks are kept out of the securities business by Rule 65, the Securities and Exchange Act, which is modelled on the US Glass-Steagall Act. The US legislation, introduced after the Wall Street Crash of 1929, prohibits commercial banks acting as investment banks. Japanese bankers say Rule 65 will go if the Americans ever abolish Glass-Steagall. But the securities companies will not surrender an inch without a fight.

Barriers will slowly be eroded. The finance ministry is currently studying plans which might allow banks to enter securities through investment banking subsidiaries, suitably insulated from interference from their parent companies.

But change will not come quickly because the battle is not one of principle but of political and commercial clout between two sides of very evenly matched contenders.

Moreover, deregulation has scarcely touched the hierarchical structure of Japanese financial society. The Ministry of Finance, far from losing authority to the forces of free competition, channels them around with impunity. Replacing old regulations with new ones, the bureaucrats divide and rule.

Mr Akio Mikuni, president of Mikuni, a credit rating agency, says: "The simple truth in Japanese banking and securities is that everything is subject to 'administrative guidance' as we call it. In other words, the Ministry of Finance bureaucrats – in close consultation with the bankers and brokers – still keep control."

For foreign companies in Tokyo, as much as for the Japanese, this means that calling on the ministry comes before calling on clients. In public, foreign companies squeal this is unfair, but in private many acknowledge that a proliferation of rules creates niches for them. Foreign banks in Japan have never made so much money in Japan as when the ministry allowed them a virtual monopoly of foreign currency loans in the early 1980s.

In the bureaucratic hierarchy, access to information is also a privilege. This is why some foreign bankers and securities brokers question the likely effectiveness of new rules intended to counter insider trading, which come into force on April 1. They may turn out to be wrong. A succession of unrelated stock market scandals – including the Recruit affair involving the distribution of shares on favourable terms to influential people – has made the Japanese authorities acutely sensitive about wrong-doing in Tokyo's financial markets.

The fact that old habits die hard does not mean reform will peter out. Some of the biggest battles have still to be fought because the economic forces which forced change in the first place are strong. Banks cannot afford to rest without winning more access to securities markets – simply because that is where their best customers have gone, exchanging traditional bank loans for bonds.

Meanwhile, institutional investors are slowly becoming more innovative. Nippon Life, for example, now has dozens of executives who have undergone training at Shearson Lehman Hutton, the US investment bank, with which it is linked through its stake in American Express, Shearson's parent.

As Japan's population grows older, pension funds will be under increased pressure to generate better returns to fund the growing numbers of retired people. Performance measurement, still in its infancy, will increase competition between fund managers. Life insurance companies and trust banks could lose their lucrative monopoly of private pension fund management. The authorities also intend to put more public sector funds out to independent managers.

Life companies, in particular, are becoming increasingly concerned about getting value for money from other parts of the financial system. It is no accident that the finance ministry is now investigating the market shares of the Big Four stockbrokers – Nomura, Daiwa, Nikko and Yamaichi – to see if they operate as an oligopoly.

In retrospect it should be no surprise that companies nurtured in this domestic maze should have found it more difficult to expand overseas than they had expected. Top Japanese financial companies have no shortage of capital to invest overseas, nor do their clients. But Japanese companies have found, like the Americans before them, that it takes time to build close long-term relationships with foreign companies. In most countries, industrial companies are happy to take money from the cheapest source – but for the key fee-paying services they turn to their oldest financial friends.

So in the US and in Europe, the overseas affiliates of Japanese companies remain the most important customers for Japanese banks. For Japanese securities companies (including bank affiliates) the cornerstone of their international business is in London – where they match Japanese borrowers and lenders in the Euromarkets. In New York, the Big Four brokers have collectively cut their operations after suffering heavy losses

In the meantime, Japan's financial power has prompted support for protectionist policies in both the US and in Europe. In a public poll last month, 76 per cent of Americans said Japanese corporate acquisitions were bad for the US. In Europe, Japanese companies are concerned that the planned economic integration of the European Community in 1992 will mean bigger barriers against outsiders. Those already inside the ring fence should be safe. But out of 50 Japanese banks in London, 19 do not have banking licences.

Both banks and brokers are becoming more sophisticated – trying to identify niches, such as currently-fashionable mergers and acquisitions work, where they can make a profit. They are also learning to make allowances for cultural differences in hiring foreign staff. Young Americans, brought to Japan for training by Nomura, are no longer housed in company dormitories. Above all, the determination to succeed survives. At Nomura, Mr Tabuchi says: "Our origins are not important. After all, Siegmund Warburg came to London from Germany."

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Left: the new dealing room of Sanyo Securities in Tokyo

Ian Rodger on the internationalisation of the yen

Still a long way to go

THERE WAS a flurry of excitement in international financial circles last September when Mr Satoshi Sumita, governor of the Bank of Japan, announced at the annual meeting of the International Monetary Fund in Berlin that the Japanese currency would become a major reserve currency.

This was a welcome message to many central bankers who have become increasingly uneasy about the meagre role played by the yen in international finance to date.

However, it is now clear that Mr Sumita's remarks were more in the line of wishful thinking than any solid commitment. Mr Toyoo Gyohten, vice minister of finance for international affairs, said a few weeks later that the Governor was referring to Japan's "preference" for a greater yen role. Mr Gyohten conceded that there were still substantial barriers to the internationalisation of the yen, and most analysts in Tokyo think it will take some time for them to come down. Thus the trend may point in the direction of greater international use, but not very sharply.

There are three main measures of a currency's international position: its use as a reserve currency, its use in international trade transactions and its use in international capital transactions. By all criteria, the yen still has a long way to go.

- Japanese officials have estimated that of total foreign exchange reserves held by monetary authorities worldwide last year, only 7 per cent were in yen, compared with about 67 per cent in dollars and 15 per cent in West German marks.
- The use of the yen in Japanese trade transactions has fluctuated over the past five years, with no clear trend emerging. In the fiscal year to March 31 1983, the proportion of exports denominated in yen reached 41.6 per cent by value, but this share has been declining since then to 33.8 per cent last year and 34 per cent in the nine months to December, 1988. Meanwhile, the proportion of imports charged in yen has risen from three per cent in 1983 to a peak of 13.6 per cent in the first nine months of the current fiscal year.
- In terms of international financial transactions, the yen is certainly a substantial player. According to Morgan Guaranty, the US investment bank, the proportion of international bond issues made in yen rose from 7.7 per cent in 1985 to 14.8 per cent in 1987. The growth trend almost certainly continued last year. The outstanding value of Euroyen markets surged from $83.5bn in Japan's fiscal 1986-87 to $137.2bn last year. In the first nine months of the current fiscal year it was already $130.1bn, according to figures compiled by Bank of Tokyo.

However, the vast majority of Euroyen issues are made by Japanese companies and bought by Japanese investing institutions, as both parties seek to get around restrictions on the kinds of issues that can be made within Japan. And the small proportion of Euroyen issues made by non-Japanese companies are almost always swapped immediately into dollars or other currencies so as to eliminate the risk of the yen's value rising.

'Our job is to make the yen more stable and convenient'

Thus, the yen's relatively large role in international capital transactions is rather artificial, something that could disappear quickly if the Japanese authorities decided to liberalise their domestic capital markets. Indeed, this is one case at least where the UK Government is unlikely to be seen urging the Japanese authorities on to more liberalisation.

So what are the prospects for liberalisation and other measures to increase the international use of the yen? The Japanese certainly know what has to be done. As Mr Gyohten put it recently, "our job is to make the yen more attractive, stable and convenient. This must be done through deregulating the yen markets, improving the functioning of the market and maintaining stable and non-inflationary growth of the Japanese economy."

However, deregulation in the bond and money markets, which would have a substantial effect on capital markets and the use of the yen as a reserve currency, are not expected soon. The easing of restrictions on corporate bond issues in Japan is tied up with turf battles between banks and securities companies which are not expected to be resolved for at least another two years.

Central banks like to hold their foreign reserves in short-term government bills and bonds, but Japan's short term money markets are small and inefficient. The finance ministry, which can raise the money it needs at favourable rates despite the inefficiency, is thus in no hurry to improve them. There is also a legal technical problem in that the government would not be allowed under current law to issue bonds that extend from one fiscal year to another.

Thus, the main hope for progress on the internationalisation front is in the financing of trade transactions. The Japanese economy is in the midst of significant structural changes involving, among other things, the transfer of much manufacturing capacity offshore and a sharp rise in imports of manufactured goods.

These trends are particularly pronounced within the East Asian area, and many economists expect that Japanese companies will be increasingly eager to use the yen in, say, sales of intermediate goods from Japanese factories to assembly plants in south east Asian countries. Similarly, Asian industrialists are looking more and more to Japan as a key export market and they too will want, wherever possible, to bill their goods in yen.

Some analysts go so far as to talk about a yen zone or bloc emerging in East Asia, but that seems a long way away, not least for political reasons. Also, most Asian countries still see the US as their most important market and so would probably prefer to keep their currencies tied to the dollar

Another possible development on the trade front is the establishment of terminal markets in Japan that trade oil, aluminium and other leading international commodities in yen. Some analysts think that because Japan is such a large buyer of these commodities, it could probably succeed in imposing pricing in yen. However, given the strength of the currency, that too might be an internationalisation measure that would not be welcomed by the country's trading partners.

OVERSEAS INVESTMENT

Confidence will take time to return

JAPANESE institutional investors snapped up unusually large portions of the quarterly issue of US treasury bonds in mid February only to find a few days later that US interest rates were being pushed up by the Federal Reserve.

It was a rude shock to them, and may portend fresh storms ahead over the delicate matter of the smooth financing of the US government deficit. This would be in sharp contrast to the last 15 months during which exchange rates have been remarkably stable and large quantities of Japanese funds have flowed quietly across the Pacific.

Problems with this flow have arisen intermittently since late in 1985 when it became apparent that the goodwill of Japanese investors had become vital to the financing of the billowing US budget deficit on reasonable terms.

The flow proceeded surprisingly smoothly through 1986 and early 1987, considering that the dollar lost nearly half its value against the yen during that period. Japan's net long term capital outflow more than doubled from $64.5bn in 1985 to $131.5bn in 1986, with most of it coming from big portfolio investors.

However, the reckoning was at hand. When the seven leading Japanese life insurance companies did their sums for the fiscal year to March 31 1987, they found they had to make provisions totalling Y600bn (£2.7bn) for foreign exchange losses, almost entirely due to the fall in yen value of their US bond portfolios. By the summer they had become completely disenchanted with US dollar investments. Net purchases of US bonds by Japanese residents plunged from an average of nearly $8bn a month in the first eight months of 1987 to only $1.2bn in September, and they remained at a low level for several months thereafter.

During that period analysts worried that the absence of the Japanese from the market would force up US interest rates. Also, there is still considerable debate about the extent to which their withdrawal from the US bond market contributed to the stock market crash in October 1987. However, the impact on bond markets was minimal. Leading industrial countries' central banks, led by the Bank of Japan, quietly filled the gap, largely through purchases of dollars in the foreign currency markets, most of which were then reinvested in US Government securities. The Bank of Japan's foreign reserves grew by $37bn in 1987, and the country's net long-term capital outflow for the year actually rose to Y136.5bn.

Last year, as relative currency stability was once again restored, the institutional investors gradually rediscovered an interest in US securities, especially since yields on US bonds remained around four points higher than those on Japanese bonds. Total Japanese purchases of foreign bonds in the second half of last year nearly doubled to $45.7bn compared with $24.4bn in the same period of 1987. The net long-term capital outflow for the year eased to Y130.3bn.

Analysts point out that despite this increased flow, investors remained wary, and much of their bond buying was hedged, either against futures contracts or by taking out dollar loans to finance it. It is only in the last couple of months that investors have become more daring, making longer term commitments in yen, they say. This new optimism appears to have risen partly out of hopes that the new US administration would really come to grips with the US deficit problem, partly from a gradually restored confidence in the willingness of the leading industrialised countries to do what is necessary to maintain stability in foreign exchange markets.

However, this optimism has been shaken again in the wake of the February treasury auctions. Japanese investors apparently snapped up about 30 per cent of the unusually large issues totalling some

There is now considerably less anxiety among analysts about the medium-term outlook for the US economy

$76bn in anticipation that US interest rates had peaked. A few days later the Federal Reserve proved them wrong, lifting its discount rate from 6.5 per cent to 7 per cent.

"The last auction was a disaster," says Mr Richard Koo of NRI & NCC, the economic research arm of Nomura Securities. "It took Japanese investors many months to get up the courage to buy US bonds with yen. Now, I think they will stay on the sidelines for a while."

Another analyst points out that the consensus view in Tokyo on the outlook for the yen is that it will reach Y115 to the dollar by the end of the year. If investors really believe that, he says, then they will not invest in US securities because their yield gain over Japanese bonds would not be enough to offset the expected exchange rate loss.

Then there is the question of the attitude of the Japanese authorities. Last year it was widely believed that the Ministry of Finance leaned on financial institutions to maintain their investments in the US and avoid creating any turbulence in US financial markets. It was an election year in the US, and the government did not want Japan to become an issue. However, this year, the Japanese authorities might take a less conciliatory approach if the US government does not seem to be dealing with its problems.

If these views are accurate, financial markets could face further turbulence in the months to come, perhaps with fresh pressure on the US government to issue bonds in foreign currencies (which would undoubtedly be called Bush bonds) so that it, rather than investors, would take the exchange risk on US treasury bond purchases.

However, there are some positive forces at work. For one thing, Japanese direct overseas investment has been growing rapidly, much of it in the US, as Japanese industrial companies attempt to get around various barriers erected against their exports. Japanese companies invested $15bn on acquisitions alone last year, and the figure is expected to continue to grow. To the extent that it does, it will remove the pressure on portfolio investors to ensure a steady outflow of funds.

Also, there appears to be considerably less anxiety among Japanese analysts about the medium-term outlook for the US economy in general and the deficit problem in particular than there was some months ago. It has been pointed out that while the US budget deficit is still very large in absolute terms, it has been declining in terms of gross national product since 1983. According to one recent forecast, it will be down to 1.9 per cent of GNP next year and will continue to decline. Also, Mr Koo pointed out that it has dropped dramatically in yen terms because of the revaluation of the yen, and is now back to the level it was in 1983.

"Objectively speaking, it should be easier to finance than before, but subjectively it may be more difficult because of the present climate," he says.

Ian Rodger

COMMERCIAL BANKS

New rules accelerate change

A LITTLE over a year ago Japanese banks shuddered at the thought of having to conform to a new set of international rules proposed by their Western rivals. The whole idea, it was often said, was a plot by jealous Western banks to hobble the fast-growing Japanese.

In practice, the standards on capital adequacy agreed last summer by the Bank for International Settlements have turned out to be far less terrible than Japanese banks feared. The new rules have merely forced Japanese banks to accelerate changes that they were making to modernise their operations, boost capital reserves and raise profitability.

Far from shackling Japanese banks, the new regulations may well have improved their domestic and international competitiveness by forcing them to become more aggressive and forward-looking. In particular, they are fighting harder than ever for access to lucrative securities markets.

The banks have already completed the most urgent part of the work required to meet the new standards – that is raising fresh capital to raise the capital/asset ratio to 8 per cent, the BIS-approved minimum. Thanks to the buoyant Japanese stock market, 13 leading commercial banks (that is 13 city banks including the Bank of Tokyo) were between them able to raise more than Y2bn (£8.9m) in new equity and convertible bonds, 10 times more than in 1985. As a result, most of the leading banks, have already met BIS standards which do not come into effect until 1992. Most other Japanese

Most of the leading banks have already met BIS standards which do not come into effect until 1992

banks, including leading regional groups, are also expected easily to beat the deadline.

The rest of the work needed to bolster Japanese banks' balance sheets consists of improving profitability over the long-term to ensure that the capital base is continually reinforced with fresh profits.

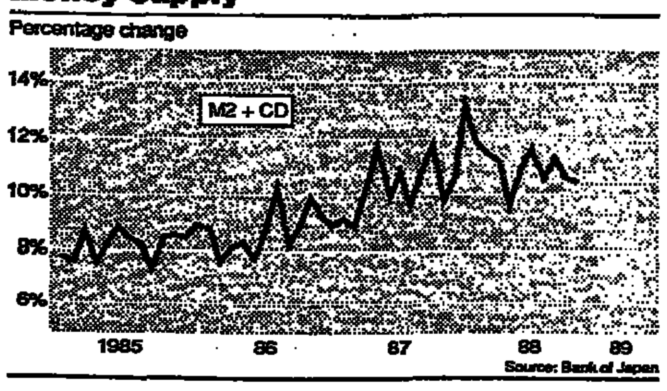
Japanese banks are huge – the 13 city banks in the year to last March made combined profits of Y2.1 trillion (million million), 37 per cent up on the year before. The top five city banks – Dai-Ichi Kangyo, Sumitomo, Fuji, Mitsubishi and Sanwa – are the largest in the world in terms of assets. But profitability is low, with an average net return on assets last financial year of only 0.22 per cent.

The world-wide trend towards securitisation has hit

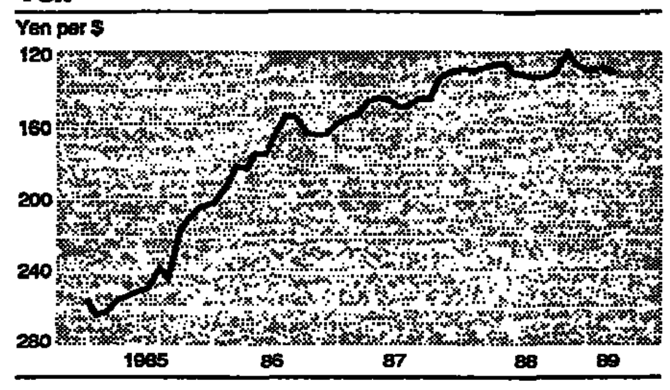
Continued on next page

JAPANESE FINANCIAL MARKETS 3

Money supply



Yen



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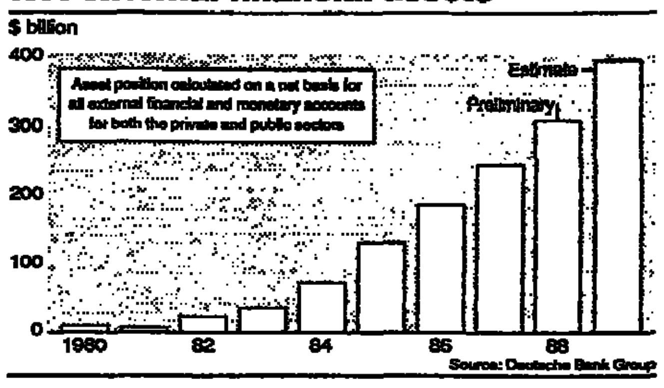
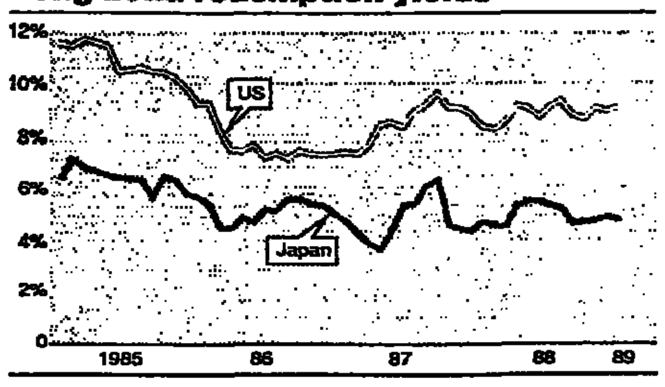


Long bond redemption yields



Stefan Wagstyl on future prospects for securities houses

Suffering from insecurity

JAPAN'S Big Four securities houses may seem to be unassailable in their power. But they worry constantly that the foundations of their strength may be undermined.

This partly stems from a sense of insecurity. Compared with Japanese banks, the securities companies are *nouveaux riches*, unable quite to win the recognition they feel they deserve from the Japanese establishment. *Kabuya*, or "barrow-boy" is an insult which is still keenly felt among the securities companies.

Partly, too, the brokers are only too well aware that their expansion in the 1980s has been based not only on their own skills but also on a surge of securitisation which may not last for ever.

But what worries the securities companies most is that they owe everything to a uniquely favourable regulatory system in Tokyo which is now changing. Strict rules which have kept potential competitors, especially banks, out of the Japanese securities market may one day be abolished or, more likely, ignored.

The Big Four argue ferociously against the dismantling of these regulations, which are modelled on the US Glass-Steagall Act, separating banking and securities business. Mr Yoshihisa Tabuchi, president of Nomura Securities, the largest company, says that even if the Glass-Steagall Act is abolished, there should continue to be "a strong fire-wall between banks and investment banks".

But the securities companies are simultaneously preparing for the day when they might be forced to end their currently effortless domination. Just as the banks are testing different ways of developing their securities businesses within the present rules, so the securities companies are busy learning about banking.

Nothing will change overnight. Indeed, the pace of deregulation may have slowed as it has reached deeper into the conservative recesses of the financial system. But there is no doubting the direction reforms will eventually take. Securities companies have, for example, successfully resisted attempts to deregulate fixed broking commissions, but they have been unable to stop the progressive reduction in rates, including a 10 per cent cut last year.

Moreover, the Ministry of Finance is currently investigating the Big Four's oligopolistic grip on share trading in Tokyo. Between them, Nomura Securities, Daiwa Securities, Nikko Securities and Yamaichi Securities handle over 40 per cent of all transactions, more if their affiliates' turnover is included.

The securities companies original hope was to expand overseas fast enough to reduce the dependence on domestic broking income. But, in the wake of Black Monday, this strategy has come to look increasingly unrealistic. Like US houses, the Japanese have come to recognise that it is extremely difficult to utilise their huge domestic strength in international markets.

Original plans for the integrated global securities company have had to be shelved

So they have shelved the idea of the integrated global securities company. Instead, they have embraced a more cautious concept in which Tokyo and New York are seen primarily as very large domestic markets. London, by contrast, is the only truly international market, in the sense that foreign investors and investments play a large part in the market as a whole. Therefore, Japanese companies are continuing to build broadly-based businesses in Tokyo and in London but not in New York, where the local competitors on Wall Street have an overwhelming advantage. In the US, Japanese houses are now being far more selective than before about choosing niches in which to operate.

The difficulties of competing in New York were already apparent to Japanese houses before the plunge in global stock markets in October 1987. But the hope before Black Monday was that, given time, the operations would come right. After all, leading US and European companies were simultaneously expanding busily in Tokyo.

But heavy losses persuaded the Big Four to change tack. Nomura, for example, last December closed its US domestic equities operation – giving up trying to sell American shares to Americans. The group now employs 450 in New York, as compared with a peak of 640, and concentrates on the profitable areas of its American business, such as broking US government securities.

And it is putting much more emphasis on niche markets – above all mergers & acquisitions. Last summer Nomura spent $100m (£57m) on a 20 per cent stake in Wasserstein, Perella, a Wall Street mergers and acquisitions specialist. The deal showed that Nomura believes that a large multi-divisional wholly-owned subsidiary is not the only way into a foreign market. The rifle is sometimes better than the machine gun.

However, the day when international operations contribute a meaningful part to the whole group's profits is as far away as ever. In the year to last September, the average for the Big Four was 1 per cent, against 6 per cent in 1987. Profits made in London offset losses in New York which totalled Y1.88bn (£8.4m) for Nomura and Y3.93bn for Nikko, the hardest-hit company.

As a result, Nomura for one is putting much more emphasis on the home market. the group has merged four "non-bank banking subsidiaries", active in venture capital and leasing among other fields, to create Nomura Finance. It has also become more willing to go on the offensive in its turf war with banks – currently it is embroiled in a dispute with banks over a plan which would allow customers to pay off American Express card bills by direct transfers from a government bond savings fund held at Nomura. Beyond that, it is offering all kinds of information and computing services through NRI&NCC, its research and communications subsidiary.

But for the foreseeable future the core of the Japanese securities companies business will be in broking Japanese bonds and equities to Japanese investors, institutional and individual. Brokerage made up 48 per cent of Nomura's consolidated revenues in the year to last September. That is why it is important for the Big Four to seek victories or at least minimise defeats in the regulatory battles.

However, even if they are forced to concede defeat, the Big Four are unlikely to be a pushover as the experience of foreign securities brokers in Tokyo proves. Certainly securities subsidiaries of Industrial Bank of Japan or Dai-Ichi Kangyo Bank, with their contacts in Japanese industry and huge capital reserves, will be tougher competition than even the strongest foreign broker. But skill and experience will be on the side of the Big Four.

Banking changes accelerated

Continued from previous page

Japanese banks particularly hard because in the 1960s and early 1970s Japanese industry borrowed heavily from banks to finance its rapid expansion. Since then, major companies have accumulated cash and high credit ratings which enable them to raise funds on the capital markets.

Deregulation, meanwhile, has led to the liberalisation of interest rates on many kinds of deposit, raising fund-raising costs. City banks now have to pay market rates on more than 40 per cent of their funds.

One way of boosting profits has been to slow down the rate of taking new loans on to the books by turning away low-margin business. Asset growth has slowed from a peak average of about 18 per cent annually five years ago, to around 12 per cent now. Mr Hideo Ishihara, a managing director at Industrial Bank of Japan, says: "We have all slowed down. We intend to grow our assets, both domestic and international, at a slower pace than before."

Banks have also become more active in seeking high-margin business. In place of low-margin loans to big companies, banks have been lending money on high margins to individuals and small companies. Such loans grew by 17.7 per cent in the six months to September 1988 for the city banks. They now account for about two-thirds of city bank lending.

International business is also growing rapidly, particularly in California, where Bank of Tokyo and Mitsubishi Bank have strong branch networks, and in Europe. So have fee-earning services such as mergers and acquisitions work, in which Sumitomo Bank, IBJ, and Sanwa Bank have developed reputations. Long Term Credit Bank, meanwhile, has built one of the world's largest leasing businesses.

But the key area for banks is the securities market. For all the rhetoric about closed doors, banks have already been able to push their noses a long way into the securities market. Bond dealing, for example, accounted for 11 per cent of total city bank profits in the year to last March. IBJ, the most aggressive bank in securities, made 36 per cent of its profits from securities.

The bank share of the government bond market far exceeds that of any other group, including securities companies. The banks are dominant players in the commercial paper market, opened in December 1987. With links already forged – through 5 per cent holdings and staff transfers – with medium-sized securities companies, they would be formidable competitors if they were ever let loose in domestic equities. But although there is intense debate over the reform of Article 65 of the Securities and Exchange Act, which separates banking and securities in Japan, there is little imminent prospect of its abolition. Rather banks are likely to be allowed to continue to find ways to expand their securities business piecemeal.

In the long-term, the quest for profitability is bound to increase competition between banks and slowly to increases the differences between them. The long-term credit banks are well placed, for example, to continue specialising in corporate business. The city banks may have to decide between corporate and retail business, although for the moment the leading companies are expanding in both directions.

For the moment the relative performance of banks has been masked by record sales of their long-term securities holdings, prompted partly by the strength of the equity market and partly by the need to raise funds to meet BIS ratios. Sales peaked before in 1987, before Black Monday, but in the six months to September 1988 were still three times the average for 1982-86.

But when these sales ease off the gaps should begin to emerge. The largest banks with the biggest branch networks, led by Dai-Ichi Kangyo with 377 branches, could be best placed, especially if banks are allowed to increase the services they can offer private individuals. Credit Suisse Investment Advisory, an affiliate of the Swiss bank, says in a report that the "vast operational capabilities and extensive branch networks of the top five banks provide a crucial strategic advantage over smaller competitors".

Among the smaller banks, some of the 64 regional banks with secure local customer bases are also well-placed. In Okayama prefecture, for example, Chugoku bank, the main regional bank, has 114 branches against 8 for all city banks put together. However, medium-sized banks in Tokyo and Osaka, competing head-on with the city banks, may find life difficult. Rivalry among medium-sized banks is also set to intensify following the conversion from mutual to corporate status of 52 former *sogo* or mutual banks. As a result of their conversion on February 1, the former *sogo* banks have lost certain restrictions on the kinds of loans they can make. Below these banks in size are hundreds of local co-operative banks, including 4,500 agricultural co-ops.

Competition seems bound to lead to mergers, with strong banks taking over the weak, such as the acquisition by Sumitomo Bank in 1986 of the ailing Heiwa Sogo Bank. Big banks will jump at the chance of a takeover since it is often the only way to acquire more branches. The Ministry of Finance will not stand in the way. "We have too many banks in Japan," says an official.

Stefan Wagstyl

JAPANESE FINANCIAL MARKETS 4

LIFE INSURANCE

Friendly approaches

IT IS a tall order making life insurance look interesting, and Nippon Life – the world's largest life company in asset terms – does not mind resorting to gimmicks to get its message across.

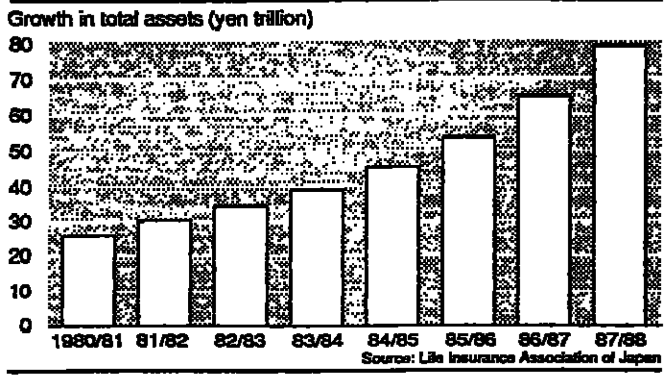
At its boutique in shimmering Shinjuku, one of the capital's premier shopping and business districts, computer games entice the consumer with simple logic for the financially uninitiated. Aproned or be-suited cartoon figures drawn in primary colours walk the customer through the particulars of his life and financial situation, and finally reach a personalised judgement on his or her insurance needs. The Nippon Life salesman is there ready and willing to tailor a policy to meet those needs.

It is a far cry from the way Nippon Life – known as Nissei in Japan – has sold insurance for most of its 100-year history. That has been the preserve of the "Nissei ladies", an overwhelmingly female and sometimes elderly network of agents whom the company admits have been largely left behind by financial deregulation.

Mr Mikio Niidome, manager of the New Wave Product Development division of Nissei, argues that this network of tied agents has been the company's strength in the past: "The way we got to be the biggest was by having the best salesforce. Now, as we are becoming not just an insurance company but a financial services company, we must improve the quality of that salesforce." As competition between banking, securities and insurance products intensifies, Nissei must become more consumer-driven, he adds, opening new branch offices to augment the itinerant ladies, and training them in selling more sophisticated products.

Life insurance companies

Growth in total assets (yen trillion)



Source: Life Insurance Association of Japan

The name of the division which Mr Niidome heads is eloquent testimony to Nissei's determination to develop the more modern higher-yielding products which British and American policyholders have long come to expect from their insurance companies. With the personal savings market due to become much more competitive soon, as commercial banks are allowed to weigh in with fully deregulated deposit interest rates, the insurance industry cannot afford to rest on its laurels – or the enormous size of its asset base.

The past few years have already seen the total assets of the industry multiply, rising from Y40 trillion (£178.7bn) in 1983/84 to twice that in the financial year to March 1988. Figures for the year which ends later this month will almost certainly show another quantum leap. There is little mystery in that: in a bull market, insurance company equity-linked policies offer better returns than bank deposits.

Indeed, the popular single-premium endowment policy was recently yielding nearly 7 per cent post-tax after five years, compared with 4.3 per cent for a five-year trust bank "big" account; less than 3.5 per cent for a 10-year Post Office account; 3.15 per cent for a City bank Money Market Certificate of over one year; and around 3 per cent over 10 years for a government bond fund from a securities house.

The largest insurers admit they need new skills to produce the kind of return which the more discriminating policy-holder of the future will demand. Competition looms on other fronts as well, with the duopoly enjoyed by the life insurance companies and trust banks over private pension fund management also about to be broken.


A new generation needs 'new wave' products

Mr Tetsuo Yoshizawa, Deputy General Manager of Dai-Ichi Mutual Life's Investment Planning department, predicts that while competition in pension fund management will increase, "I don't think we will lose out much to the others. We are strong in the area of Japanese equity and real estate investment and should be able to remain so."

None the less, some of the largest companies – including Dai-Ichi Mutual – are trying to buy in expertise. Nippon Life spent $580m (£331m) in 1987 to take a 13 per cent stake in Shearson Lehman Hutton, the US investment bank, with the aim of acquiring investment management skills and building up in-house securities experience, says Mr Tomohiro Kawase, senior manager of the Investment Planning department of Nissei.

"We're sending staff in scores to Shearson to gain new skills," he explains, adding "our corporate clients in Japan have ever-more diversified needs for financial services but our products are limited. We need to be able to cope with their investment banking or securities needs."

Yasuda Life, seventh largest in terms of total assets, also spent $300m for a stake in Wall Street stockbrokers Paine Webber; Sumitomo Life, third in the ranking, has taken a 15 per cent stake in Edinburgh investment managers Ivory & Sime; and only last month, second-ranking Dai-Ichi Mutual Life spent just over $100m for a 2 per cent stake in France's Compagnie Financière de Suez.

Patti Waldmeir

Clive Wolman examines the trust banks

Fortune and skill

THE QUESTION facing the trust banks in 1989 is how much longer their run of good luck can last.

Over the last three years, the seven Japanese trust banks have demonstrated both great skill and fortune in turning to their advantage a wide variety of developments, including several moves towards liberalisation which initially appeared to be threats rather than opportunities.

In the five years since spring 1984, the total trust assets of the banks doubled to more than Y130 trillion (£581bn) while their operating profits quadrupled to Y800bn. And this was in a period in which several of their traditional legal and regulatory privileges came under attack.

Trust banks have probably benefited more from these privileges than any other institutions. They are the product of: the compartmentalisation of Japanese finance, which for trust banking was enforced only in 1960; the protection against foreign competition; the legal requirements to hold a wide variety of assets in trust; and some unusual features of the tax system.

The most obvious liberalisation step was the opening up of the trust banking sector to nine foreign entrants in mid-1985. After two years of losses, several of the foreign trust banks are expected to record modest profits in the current financial year, including the only UK representative, Barclays. Except in a few specialist areas, however, such as international custody and settlements, they have not represented a competitive threat to any of the domestic incumbents. Contrary to their original hopes, only one of the nine foreign banks, Nippon Bankers Trust, has secured a beachhead in the potentially lucrative pension fund management market.

What appears to be a more serious threat to the Japanese trust banks is now emerging with the opening up of the investment management market. However, the newcomers will be limited to competing for a third of the new money flowing into pension funds. Existing funds are securely tied to the trust banks and life insurance companies (in a ratio of about two to one). And the pension market is growing rapidly, from about Y27 trillion (million million) in private sector funds now to an anticipated Y100 trillion in 10 years, while a trickle of public sector pension assets, which are already worth a total of Y65 trillion, are now being allocated to the trust banks.

A gradual decline in their share of a rapidly expanding market should thus be barely perceptible to the trust banks, except in the event of a much more radical liberalisation of the pension fund market.

Further security is provided by the high entry barriers that the trust banks have erected. These are based, first, on the network of longstanding relationships with their corporate clients and pension fund sponsors – to disturb these would require more stamina than some of the foreign entrants appear to possess. Second, they are based on the lifetime employment system which makes it difficult for both foreign and Japanese entrants to lure away the most experienced pension fund account handlers.

Some of the trust banks have responded to criticisms of their poor investment performance, which typically yielded returns little better than holding money market instruments

In addition, some of the trust banks have responded to criticisms of their poor investment performance, which typically yielded returns little better than holding money market instruments. Yasuda Trust, for example, has applied a variety of analytical techniques derived from modern portfolio theory, in particular to determining its asset allocation, limiting risk and monitoring its investment performance which since 1984 has improved from one of the worst to one of the best.

In their other activities, the trust banks were, until the current financial year, benefiting from the booming stock and property markets and the growth of managed funds held in trust. The trust banks receive both an administration fee and a share of the dealing commissions generated by the tokkin and associated funds. Since 1984, industrial and financial companies have been pouring large sums of cash into these vehicles, which offer certain tax benefits, as a way of running an actively traded stock market portfolio. But this year income from this source has fallen off as the tokkin have cut back their trading by 15 to 20 per cent and corporations have put their surplus liquidity into lower risk outlets.

The banks' real estate brokerage activities, too, boomed in line with the soaring property market but have tailed off since last summer as land prices have plateaued or fallen back. But a new area with profit potential for the trust banks is the land trusts, a legal device which gives them an entry into property development finance and project and estate management.

The one major activity which has been yielding higher returns in the current financial year has been the loan and money trusts, which are a substitute for retail deposit accounts and give the trust banks an opening into the retail banking market. The additional profits from this source, which are estimated to account for about 25 per cent of total trust bank profits, have been achieved as a result of favourable interest rate movements. The anticipated influx of funds migrating from the maruyu post office accounts, the tax privileges of which were subject to stricter limitations last year, has failed to materialise.

Thus, although the trust banks are viewed as safe investments by the stock market (all should easily meet the capital adequacy requirements laid down by the Bank of International Settlements) they are also seen as having little growth potential or scope for extending their run of luck. For this reason their shares are rated at only about 48 times their estimated earnings for 1988-89, and that represents a discount of about 33 per cent to the giddy average for the Tokyo stock market and, for their more aggressive rivals, the city banks.

Patti Waldmeir examines the pressures on local banking in one prefecture

Fruits of financial deregulation

HE MUST have been asked the same question a thousand times, but Mr Kenji Yoshida, President of Okayama's Sanyo Sogo Bank, still waxes philosophical on the subject of why he has decided to rename his bank the "Tomato Bank".

"Tomatoes are bright, delicious and popular and that is what I want my bank to be," says Mr Yoshida, confiding that the new name came to him over breakfast one day as he contemplated a particularly fresh and appealing example of the species. Mr Yoshida detailed the bank's research team to determine whether the common or garden tomato was a suitable symbol for an aspiring regional bank. And so, armed with the latest horticultural data, Mr Yoshida decreed last August that he was creating "a tomato bank which loves human beings".

Mr Yoshida admits that his wife and daughter – not to mention the odd colleague at the bank – expressed scepticism about the relevance of the name to a financial institution which is facing one of the most trying periods in its 58-year history. Last month, in common with a number of other *sogo* or mutual banks, Sanyo Sogo bank discarded its mutual status and assumed the rights and responsibilities of a fully-fledged regional bank – a goal which had been sought by many *sogos*, and dreaded by not a few.

For his part, Mr Yoshida – congenitally given to optimism rather than pessimism in any case – stresses the advantages of the deregulation of financial markets which has removed the restrictions which used to try the *sogo* banks' patience. They are free to pursue large industrial customers, rather than seeing such lending limited to 20 per cent of the total. A new image, says Mr Yoshida, is crucial to attracting these new customers.

Having won the name change battle – it comes into force next month – Mr Yoshida is still studying the more substantive changes needed to make the bank competitive. The tomato image itself should help in attracting new depositors, he believes: expressions of interest from far-flung corners of Japan suggest its appeal will not be limited to the bank's Okayama prefecture home. But once the initial thrill has worn off, the Tomato Bank faces a formidable challenge. Says Mr Yoshida: "some of my colleagues objected to the tomato image because a tomato is easily crushed under somebody else's heel".

Such will quite likely be the fate of some if not many of the *sogo* banks: too weak to survive on their own, they will merge, get taken over by city banks looking for branch networks in the regions, or even fall to foreigners. Both the gov-

Continued on next page

John Ridding on the future for foreign banks

Shift in the focus of business

AS THE 1980s draw to a close, many foreign banks are finding that business in Japan is even more difficult than it was 10 years ago.

Although, as a group, pretax profits were up sharply in fiscal 1987 at Y29.5bn (£131.8m) this largely reflected the poor performance of the year before. Of the 81 foreign banks, 20 made losses and, according to the Bank of Japan, the foreign share of total banking profits is now less than 1 per cent compared with 3 per cent in 1979.

Ironically, much of the reason for the tougher environment now confronting the foreign banks is to be found in the deregulation of Japan's capital markets. This process was initially encouraged by the foreign banks which were seeking new business areas in which to expand. In practice, however, it resulted in the opening to domestic competition of their most profitable niches.

In particular, the monopoly of impact loans, which provided up to 40 per cent of foreign banks' income in the 1970s, was ended by the 1980 revision of the foreign exchange law. Since then, the profitability of this business, and the foreign banks' share of it, have plummeted.

A second trend which has affected foreign banks — and which has also been a major problem for domestic banks — is the decreasing importance of loan financing to Japanese companies. Increased use of securities and of retained profits to provide funding, has made lending more difficult and spreads smaller. In addition, the foreign banks have faced stiff competition for the available business from regional banks and mutual savings and loans.

In response to this increasingly competitive environment, foreign banks have shifted the focus of their business. Securities and foreign exchange dealing have become much more important, with the former showing an estimated doubling of income in fiscal 1987. Money market arbitrage has also been a factor in improved earnings and there has been a greatly increased emphasis on off-balance sheet, fee-generating activities.

The development of these business areas is particularly noticeable in the case of American banks. Mr James Higgins, managing director of J.P. Morgan in Tokyo, for example, describes a greater reliance on providing treasury management and corporate finance expertise and "a massive increase in trading and risk positioning, particularly in the areas of foreign exchange and government securities portfolio management".

At the same time, American banks have also been cutting back on asset growth. Between the end of June 1987 and the end of June 1988, for example, Bank of America reduced its outstanding loans from Y216bn to Y173bn. In this respect, capital adequacy requirements laid down by the Bank of International Settlements, and pressure from US shareholders for higher returns on assets, have combined with the declining spreads on Japanese lending to encourage change.

In contrast to their US counterparts, many of the European banks are continuing to build up their loans. The incentive is not so much to obtain immediate returns but more to establish the basis for more profitable business. As Mr Anthony Hodge, manager of National Westminster in Tokyo, puts it: "Even though it doesn't produce an acceptable return, lending to a Japanese company remains a vital business relationship."

Overall, these differing strategies have brought about a shift in the pattern of foreign bank business. European banks now account for over 60 per cent of the foreign banks' total loan balance, while the share of US banks has fallen to less than 20 per cent. In terms of profits, however, US banks continue to lead the field.

For both the European and US banks' alike, the key task over the next few years is to locate and exploit new areas in which they hold a comparative advantage. Some are already evident, such as the supply of expertise and information concerning foreign markets. This field is regarded as increasingly important given the current boom of Japanese foreign direct investment.

Foreign bankers in Tokyo are also expressing optimism about business opportunities in the field of international mergers and acquisitions, and in private banking areas such as the international transfer of funds.

For a few, the main area of interest lies in retail banking. The losses sustained by Citicorp in fiscal 1987, for example, were largely the result of investments in developing its services to retail customers.

To obtain the branch networks necessary for retail service, a number of foreign banks have expressed interest in acquiring some of the weaker *sogo* banks (mutual savings and loans) which are finding it increasingly difficult to survive in Japan's banking environment. But serious problems are presented by the strength of the yen, high p/e ratios and institutional opposition to foreign acquisitions of domestic banks.

In the immediate future, therefore, the situation is unlikely to see much change. As one foreign banker put it: "We will have to continue to search for niches in which we have an edge and just hope that they will keep turning up."

PROFILE: TOKYO SOWA BANK

Incentive is increased prestige

MR KAZUO KOYASU, the senior managing director of Tokyo Sowa bank, wears a satisfied smile. After almost a decade of lobbying, his bank, along with 51 other *sogos*, or mutual savings and loans, was this year finally allowed to upgrade its status and become an ordinary commercial bank.

For Tokyo Sowa, formerly Tokyo Sogo, and the other converts the change means an easing of restrictions on their areas of business activity. Hitherto they could extend only limited loans to large companies — those capitalised at more than Y800m (£3.6m) and with more than 300 employees. They were also barred from setting up overseas branches, limiting their access to foreign loans and currency business.

The principal incentive for conversion, however, was very much a matter of prestige. "*Sogo* banks have always been looked down upon," complains Mr Koyasu. "At the top of the ladder are the city banks, then the regional banks and then us. All we have below us are the *shinkin* (credit associations). As long as we had the name *sogo* we were regarded as second class."

In addition, the costs of conversion were small. The only privilege enjoyed by *sogos* is their instalment savings scheme which gives clients borrowing privileges in return for providing fixed deposits over a specified period. As Mr Koyasu points out: "nowadays such deposits represent only a small proportion of the total. We will not miss them much."

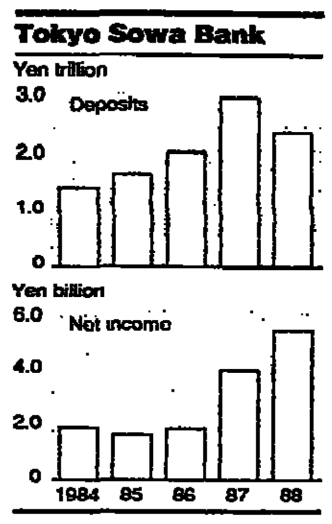
This combination of increased prestige and small cost was obviously attractive bait. Of the 68 *sogos* existing at the beginning of the year 52 converted on the first available date — February 1. A further six will convert on April 1 with the remainder expected to follow suit by the end of the year.

The raising of status is expected to bring some concrete benefits. "It will be easier now for us to raise deposits and also to get better staff," Mr Koyasu claims. "Graduates from good universities don't want to work at *sogos*."

Tokyo Sowa also hopes that enhanced prestige will facilitate entry into the lucrative field of corporate underwriting and help to win deposits from municipal and prefectural government.

Despite these new opportunities, however, Tokyo Sowa, like other newly-converted *sogos*, is not about to change the focus of its business. "Our strategy is to continue to concentrate on small and medium-sized companies and individuals. That is where our strength lies," says Mr Koyasu. "Winning larger corporate clients from the city banks is very difficult and in my opinion not profitable enough."

But the problem facing *sogos*



and those newly-converted to ordinary bank status is that their traditional business areas are becoming increasingly less secure. City and regional banks have made inroads into their client borrowing base and their source of funds is also facing growing competition.

In this respect the process of liberalising interest rates on smaller deposits is a growing concern on the part of *sogo* banks. From June commercial banks and Japan's mighty postal savings system will offer market rate money market certificates on deposits as low as Y3m, thus increasing their ability to compete for small deposits.

Given that accounts of less than Y10m account for 69 per cent of time deposits in *sogo* banks, and that *sogos* are more dependent on deposits as a source of funds than other types of banks, the threat posed by such competition is clear.

Tokyo Sowa is itself finding it difficult to maintain its deposit base. In the fiscal year ending March 1988 total deposits fell 19.5 per cent. The steep decline was the result of the existence of more attractive investment alternatives and the abolition of tax exempt savings instruments in April.

This increasingly hostile environment was doubtless a factor in the recommendation by the Ministry of Finance research committee that *sogo* banks be allowed to convert their status. According to the official scheme the stronger converts would survive and even thrive with their new powers while the weaker and smaller *sogos* would present attractive merger propositions for city and regional banks keen to expand their network and contacts in specific areas.

Mr Koyasu is confident that Tokyo Sowa can survive in this more competitive environment and he points to Tokyo Sowa's record. With assets of Y2.6 trillion (million million) Tokyo Sowa is Japan's second largest *sogo* and one of the world's 150 largest banks. In fiscal 1987-88 net income rose by 37 per cent due largely to interest on loans and securities holdings.

The bank's 98 branches do, however, make Tokyo Sowa an extremely attractive merger proposition for city banks, particularly those looking to expand their network in Tokyo and the surrounding prefectures.

Mr Koyasu admits that there has been interest but dismisses the possibility: "We will always say no. We are certain that we can succeed on our own."

It is unlikely that Mr Koyasu's confidence extends throughout all or even most of his colleagues in former *sogo* banks. For some, the competitive pressures brought about by financial deregulation will gradually erode their business base. Consequently, their identities may end up being altered far beyond a change in name and status.

John Ridding

Pressures of reform on local banking

Continued from previous page ernor of Okayama prefecture, Mr Shiro Nagano, and Mr Kanji Inaba, President of the dominant regional bank in Okayama, the Chugoku bank, say they believe a takeover of the Tomato Bank is unlikely. But much will depend on its ability to attract new industrial customers and shake off the image left to it from its days as a *sogo*: a second class citizen of the banking world.

Bank of Japan data suggests that even before the conversion, the mutual banks of Okayama prefecture were losing market share to regional banks in the area — primarily the Chugoku bank, but eight branches of regional banks from other areas, too. At the end of last year the regional banks held Y2.18 trillion (million million) in deposits compared with the mutual banks' Y640bn (£2.9bn), and accounted for Y1.48 trillion of total lending in the prefecture against Y500bn for the *sogo* banks.

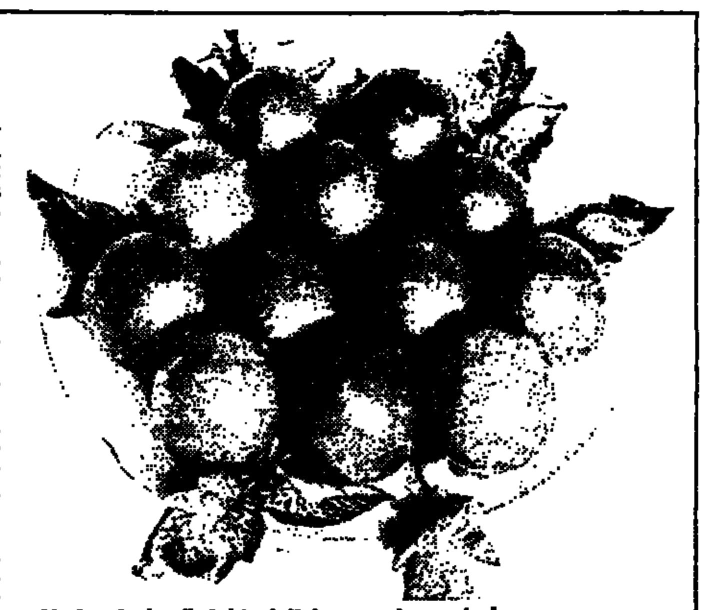
And, more importantly, regional banks saw deposits increase by 12.3 per cent and loans by 13.7 per cent annually, compared with substantially slower growth rates of 10.4 per cent and 11.0 per cent respectively for the mutuals. And Mr Inaba of the Chugoku bank says he does not believe Sanyo Sogo Bank's rebirth as the Tomato regional bank will change any of this much.

He is far from complacent, though, about the upheaval facing Japanese banking as a whole and the regional banks in particular: "Our market used to be very much a lender's market; as long as the banks had money, people would borrow from them. Now it is becoming very much a borrower's market, and we have to adjust to the shift." Mr Inaba, who cites the internationalisation of financial markets as another grave challenge for the regional banks, believes the banks will only prosper by sticking to the markets they already know and learning to serve them better.

"As the barriers between different types of financial institution are lowered, we will come under greater competition from both the city banks and the trust banks," he notes. Indeed, some city banks and regional banks from outside Okayama prefecture are already undercutting the Chugoku bank's lending rates in an effort to weaken the loyalty of corporate customers.

Their weakness is both in their branch networks — all the city banks represented in Okayama prefecture have only eight branches between them, compared with 114 for Chugoku bank alone — and in their lack of the corporate relationships which are crucial to success in Japan. "They may have information on the big picture; but we know our local market and we can offer a service more closely tailored to the customer's needs." So while many of Japan's city banks think globalisation is the key to success in the new deregulated environment, Chugoku bank has linked its fortunes so closely to its region for more than a century that the risks of abandoning this foothold seem too great to contemplate.

But internationalisation is a fact of financial life, in Okayama as much as anywhere else, and the Chugoku bank is developing international expertise to ensure its clients are not left in some regional backwater. It has set up a representative office in New York and hopes to move towards operating as a universal bank there in the near future. But not in Japan — even if the authorities ever decide that is feasible. Says Mr Inaba: "Our position in the regional market gives us an edge. We're not going to give that up now."



Aiming to be 'bright, delicious and popular'

Few foreign securities houses seem to be making reasonable profits on their Japanese operations

Most continue to take the long-term view

PREDICTIONS of an imminent shake-out among foreign securities houses in Tokyo have been around for so long that one can be forgiven for wondering why more firms have not yet conceded defeat.

The vast majority of foreign houses are losing money, and it is difficult to see what would change that scenario in the immediate future. But though losses are prompting retrenchment among the weaker houses, relatively few look likely to repeat Hoare Govett's New Year decision to give up on Japanese equities altogether – at least not in the next six months.

"From a strictly commercial point of view, we certainly ought to see others pulling out," says Mr Henry Strutt, general manager of Jardine Fleming (Securities) in Tokyo. After years of effort and massive sums spent setting up in the Tokyo market, only a handful of foreign securities houses appear to be making reasonable profits on their Japanese operations. Indeed, according to figures published earlier this year by the Nikkei Financial Daily, fully 80 per cent of the 47 firms licenced by the Japanese Ministry of Finance lost money in the year to September 1988.

Differences in the way research and other costs are charged make comparisons difficult. But while some firms undoubtedly understate losses by charging costs abroad, high rates of Japanese tax encourage profitable firms to minimise the level of profit reported to the local authorities. The industry consensus seems to be that seven or eight foreign houses are comfortably in profit, while many more "are losing money like tearing up Y10,000 notes," in the words of one foreign broker.

Set up at a time when global broking was believed to be the shape of things to come, many firms seem to have dispensed with any rigorous analysis of exactly how their Tokyo operations were meant to make money. Altogether, 47 firms have been granted licences to exploit a slice of the market which last year accounted for only 3.8 per cent of total TSE trading volume. And as securities firms have fallen on hard times abroad, some have begun to question the logic of continuing to pour money into far-away Japan.

Earlier this year, Hoare Govett announced a world-wide restructuring which involved its withdrawal from all Japanese equity-related business,

Top ten foreign securities firms

1. Morgan Stanley
2. Goldman Sachs
3. Salomon Bros
4. Baring
5. First Boston
6. WI Carr
7. Jardine Fleming
8. Prudential Bache
9. SG Warburg
10. Merrill Lynch

*Source: Industry estimates

as well as from gilts and Eurobonds in London. Fifty Tokyo-based staff were told they would lose their jobs. Following hard on Citicorp Scrimgeour Vickers' December decision to disband its equity research team in Tokyo, the news provoked a distinct sense of vulnerability among the staff of some foreign brokers.

Over the next six months, their concerns are quite likely to prove justified, with cost-cutting likely to prove the rule among weaker firms desperate to hang on for better times ahead. But outright departure looks likely to be more the exception than the rule. "If decisions were being taken purely on hard-nosed commercial grounds, then many more would be pulling out," says Mr Strutt of Jardine Fleming. But he and others in the industry stress the knock-on effects of a decision to withdraw from equity or overall securities trading.

Ministry of Finance officials would scarcely be impressed by what they would interpret as short-termism on the part of foreigners who lobbied endlessly to be allowed to operate in Japan, only to reconsider the decision when times got rough. Sacking Japanese staff would hardly improve a firm's credibility as an employer. And the stigma of a failed securities operation could significantly damage the reputation of companies which have ambitions for their corporate finance and investment banking activities in Japan.

"The weaker-capitalised partnerships cannot afford to continue," says one broker, "but the larger ones simply cannot afford to leave". Whether for reasons of prestige, long-term commitment, or reluctance to break the Asian link in the 24-hour trading chain, many firms may well decide not to give up on Tokyo yet. Indeed, the Ministry of Finance says it believes the total numbers employed by foreign securities firms rose by perhaps 20 per cent last year and it expects no overall decrease in employment this year despite some of the cutbacks.

The pattern established by Citicorp and Security Pacific – US banks which have run into trouble over their acquisition of UK brokers – may suggest that pressures abroad could have more impact on the broker attrition rate in Tokyo than conditions in the local market. Indeed, some in the industry believe that the firms under the greatest pressure to leave are those which are owned by a banking parent which may question its commitment to securities in the face of continuing losses.

Overall, the industry consensus is that Japan can probably support no more than 10 or 15 foreign securities houses profitably, and many fewer which focus primarily on equities. Already, polarisation of the industry has begun, with the top houses – most of them American – expanding and taking on more staff while the marginal players cut costs and struggle to avoid falling off the bottom of the ladder.

Some brokers argue that, in future, the best profits will come from developing and trading more sophisticated equity products rather than stocks and shares, where competition from the four dominant Japanese houses is daunting. Morgan Stanley and Salomon Brothers, for example, have stolen a march on the Japanese in exploiting the stock index futures market since it opened last September, and there may be other such opportunities in the financial futures market, due to open this year.

Others believe that foreigners can add value even to the business of selling Japanese stocks to Japanese investors by developing a market for Western-style fundamental research. Still others believe that real profits will begin to flow only when foreign investors return to the market in a major way, after their post-crash defection.

But for the moment, although everyone agrees that there are too many brokers in Tokyo, volunteers to leave are relatively thin on the ground. Doing business in Japan is likely to remain a desperately competitive affair for a very long time to come.

Patti Waldmeir

FOREIGN TRUST BANKS

Established relationships are hard to break

FOR THE nine foreign trust banks operating in Japan, patience is very much at a premium.

On entering the market in 1985 and 1986 their goal was to gain access to the huge domestic pension funds which now exceed Y90 trillion (£402.2bn). But, as Mr Bernard Rosenbach, President of Japan Bankers Trust, points out, "so far the foreign banks have not been very successful in penetrating this sector".

The figures bear this out. At the end of fiscal 1987 pension funds accounted for less than 2 per cent of the foreign trust banks' total trust assets. In the pension market as a whole, foreign-managed funds accounted for a fraction of 1 per cent of the total.

Much of the reason for this failure is that the allocation of Japanese pension funds has traditionally been based on corporate relationships rather than return-oriented criteria. These relations, because of their longstanding nature, are difficult for the foreign banks to break.

The foreigners' problems are compounded by official regulations that require each manager to balance their funds. In particular, because no more than 30 per cent of any fund can be invested in overseas equities, the foreign trust banks cannot exploit their potential advantage in this area.

The foreign trust banks believe, however, that improvement is gradually occurring. Most are slowly winning new corporate clients and the growth of the market itself means that management of even a constant proportion of a client's funds brings expansion. In addition, many expect to receive new or increased funds to manage from the Ministry of Health and Welfare.

In the longer term, however, more progress may result from ongoing moves to liberalise the pension fund market as a whole. The latest step in this process was the decision in January to end the duopoly of pension fund management enjoyed by life insurance companies and trust banks.

In theory, foreign trust banks should oppose the ending of this duopoly and the opening of the market to new forces of competition. In practice, however, the prospect of competition from independent pension fund management companies is regarded by many as a step forward.

As one foreign banker put it: "We don't have anything now, so increased competition for nothing is nothing. But maybe it will enlarge the slice of the pie which is available to non-traditional managers."

Given the current scale of their pension fund business, foreign trust banks have had to rely on alternative sources of income. In this respect they have been fortunate in benefitting from the practice of corporate cash management through *tokkin*, or specified money accounts, which are used by Japanese companies to generate revenue through short-term investment in stocks and bonds.

Foreign trust banks have benefitted not only because of the increased popularity of these accounts in recent years but also because they could meet the demand of Japanese clients for diversification into foreign securities.

In the fiscal year ending March 1988 *tokkin* accounts represented almost 50 per cent of the total trust accounts of foreign trust banks. They were a major factor in the improved profit performance of the group as a whole.

The demand for *tokkin* accounts has, however, shown marked volatility. Following Black Monday the number of accounts fell sharply and it was not until the middle of last year that improvement became evident. The market may again be damaged by a change in accounting rules which has been proposed by the Japanese Federation of Bankers Associations.

Under these proposals profits from *tokkin* accounts would no longer be included in a company's net operating profits. Since an important element in *tokkin* investment has been to inflate such profits, a key incentive for holding such accounts will be removed.

The uncertainty surrounding *tokkin* investment is a cause for concern on the part of foreign trust banks. Unless they develop new niches, such as merger and acquisitions business, housing finance and land trusts, or are able to expand their pension fund business, their recent successes may prove too narrowly based.

John Ridding

Foreign investment advisers

Pension funds law to change

IN THE pension fund business, nothing happens overnight. It took months of bureaucratic manoeuvring and a few false starts before the finance ministry announced the liberalisation of the management of the country's corporate pension funds in January. But the news was no less welcome to an investment management community which includes a number of the best known foreign names in fund management.

From some time this autumn, the 127 investment advisory companies licenced in Japan are to be allowed to compete for the management of some of the country's corporate pension funds, formerly the exclusive preserve of trust banks and life insurance companies. The measures have yet to become law, but when they do – and ministry officials say they expect legislation to clear the Diet by the end of this month – the investment advisory companies will be allowed to compete with the traditional managers over new inflows to the so-called employees' corporate pension funds. At the end of fiscal 1987, these funds had outstanding assets totalling Y16.9 trillion (million million), some two-thirds of the total for private pension funds in Japan.

It is the Ministry's fond hope that competition will improve the relatively unimpressive returns achieved under the old duopoly system, in the interests of being able to provide for a rapidly ageing population in the style to which it has become accustomed.

The Ministry has estimated that some Y1.5 trillion (£6.7bn) in such funds could be affected in the first year alone. Whether much of that will actually go to investment management companies rather than to the more traditional managers must, however, remain in doubt. "It may be tough for the newcomers to persuade the pension funds that they are at least as reliable as the trust banks and insurance companies," says one Finance Ministry official. He notes that although foreign trust banks have been authorised to manage pension funds for a number of years already, they have found it extremely difficult to penetrate the market.

Mr Andrew Fleming of Gartmore's Tokyo office puts it even more starkly: "The problem will not be demonstrating a track record, but getting prospective clients to listen to us.

"Japan works on relationships," he notes. "Price and performance will not necessarily be the deciding factors." But the average fund manager tends to be nothing if not patient, and Mr Yaji Kudo, managing director of Schroder Investment Management in Tokyo, says he thinks the new measures should be welcomed as progress.

True, the management of existing corporate pension funds will not be affected – only new inflows to established funds are to be opened for competition, and then only so long as they add up to less than one-third of total assets. And the management of the really big money, the public pension funds, remains the sole responsibility of the trust banks and life insurance companies. Those funds, the outstanding assets of which totalled Y62.6 trillion at the end of fiscal 1987, are expected to grow by 15 to 20 per cent a year until well into the next century.

Furthermore, although the ministry has relaxed restrictions on how managers can invest the new funds, some foreign firms complain the measures do not allow them to exploit their particular area of expertise.

Some fund managers have suggested that they see better opportunities in managing investment trusts than pension funds and 10 leading international management groups recently met Ministry of Finance officials to press their case for entering the industry, from which they are currently excluded. Investment trust assets have risen from under Y20 trillion in 1985 to over Y50 trillion now, and are forecast to go on rising at least as rapidly as the pension funds. Liberalisation of that market looks closer than it has done for some time, with a finance ministry study group due to report in May on the question of issuing new investment trust management licences – some of which could go to foreigners.

Patti Waldmeir

New laws on insider trading come into force soon, writes **Patti Waldmeir**

Walls improve view from abroad

"THE JAPANESE are all insiders." This comment, made by a foreign stockbroker in Tokyo, may well sound like the typically jaundiced view of a permanent outsider. But there is a measure of truth to the comment even so – depending, of course, on how one defines the term "insider".

Establishing a legally enforceable definition of insider trading and inside information is exactly what the Japanese government has set out to do, with a new law on the subject due to come into force next month.

The law seeks to define the term "insider", including in this category executives of listed companies, shareholders with more than 10 per cent of a company's stock, some public servants and officials of related banks, securities and affiliated companies, and a range of others privy to restricted information. It also details the types of information which is privileged – including annual results where there has been a change of more than 10 per cent in sales, or 30 per cent in profits.

The old law, comfortably vague enough to pose no real threat to such activity, had become an impediment to the process of internationalising Japan's markets. With American brokers clamouring ever more loudly for a fair chance in Tokyo, the absence of enforceable insider trading legislation had simply become an embarrassment.

Already securities firms, insurance companies, banks and some industrial companies have started to tighten up internal procedures ahead of legislative reform. Securities firms are trying to stem the leakage of information between their underwriting and sales sides; the bankers' federation has called on members to ensure information does not make its way from corporate finance executives to dealers in securities; and some industrial companies are also trying to insulate their corporate planning departments and imposing restrictions on employee share dealing.

However, it is difficult to find many brokers in Tokyo who predict that trading in Japan will be much affected. "The principle of what might in the West be considered unfair advantage is absolutely central to the way business is done in Japan. To change it would be to alter the very nature of the market – and the authorities certainly have no intention of doing that," said one broker who preferred to remain nameless.

"Decision-making is not the preserve of three or four people at the top of a company," noted one broker in an attempt to explain the traditionally wide distribution of market-sensitive information. "Hundreds of people can be involved. And they are all insiders."

Japanese securities houses find it natural to provide favoured clients with advance information of a stock recommendation or other sensitive information. Companies may distribute privileged information not only to their brokers and bankers, but also to large shareholders before releasing it to the investing public at large. This means that altering the system would prejudice the interests of a very large section of the Japanese business community, and not only of a few individuals who make spectacular profits by flouting the law. And in a market moved more by rumour and sentiment than by fundamentals, the Japanese brokers' inside track on the news is clearly a major selling point with clients.

Despite all the vested interests ranged against reform, however, pressure both domestic and foreign has left the authorities with little option but to take action on abuses. Over the past year, a number of particularly unsavoury affairs have brought the ethics of the market increasingly into question: in 1987, when privileged shareholders bailed out of Tateho Chemical Industries just before it announced heavy losses on bond futures, pressure for change had already begun to build. Subsequently allegations emerged of insider dealing in shares of Sankyo Seiki prior to Nippon Steel's acquisition of an equity stake in the company, further sullying the market's reputation in the public perception.

However it was the Recruit Cosmos affair – which involved the privileged distribution of shares rather than insider trading – which seems to have been the greatest catalyst to change. "With politicians tumbling right and left, it would have been impossible for the Ministry [of Finance] to fail to act," said one broker. It is hoped that the new insider trading law will go some way to defusing the political crisis which has blown up around the Recruit issue. And it cannot but improve the image of the Tokyo market abroad, which could be an important factor at a time when foreign investors are finally returning after a crash-induced absence.

However, it is a moot point whether the law will prove powerful enough genuinely to curb abuses – and whether the authorities intend merely to make a gesture in the direction of reform, or to take concrete action. Most brokers believe that the more blatant forms of insider activity will indeed be made impossible in the new environment. Evidence of this has already begun to appear, with some of the larger companies abandoning the traditional practice of hosting private results briefings for major shareholders.

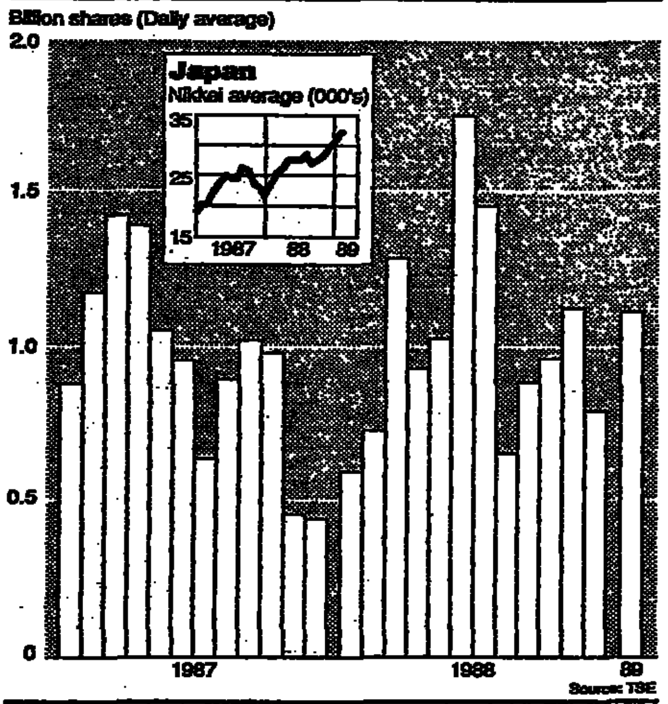
But, in most cases, charges of insider trading may still prove difficult to substantiate: "There is a world of difference between having a strong suspicion that something illegal has taken place and having firm evidence of an abuse," noted one foreign broker. Lack of staff could also hamper enforcement. The Tokyo Stock Exchange has only 30 people in its surveillance division; the Ministry of Finance, which regulates the securities industry, has 18 staff to oversee the secondary market, and they have many other responsibilities apart from monitoring insider trading. The Ministry of Finance says it is counting on the deterrent effect of the law.

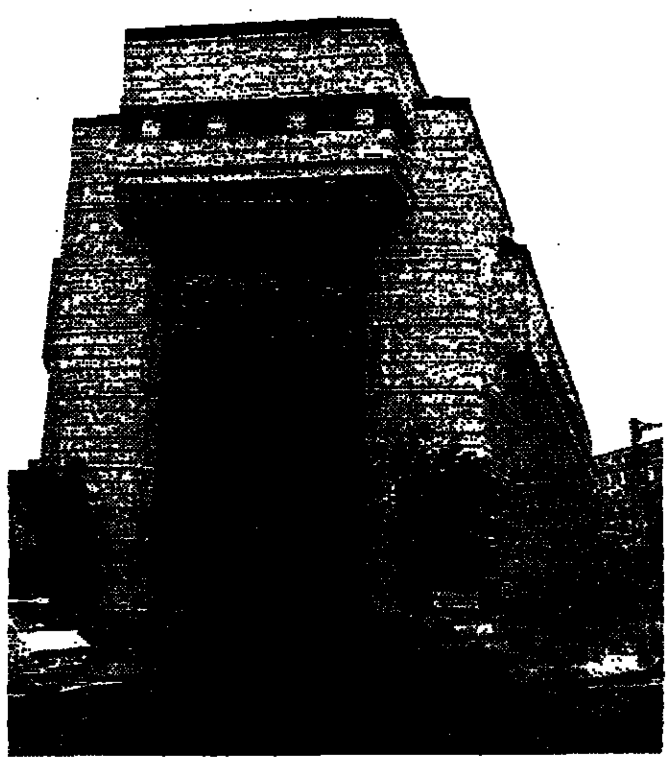
And as for the financial institutions' own campaign of deterrence, local career patterns could make Japan's version of Chinese walls even less effective than those erected in London.

Japanese employees are regularly transferred from one part of a firm to another, and build social contacts which Chinese walls cannot destroy. Says one broker: "Chinese walls can stop people whispering together at work. But they cannot stop them drinking together in the evening, and quite a lot of information can be passed on over a bottle of beer."

Tokyo Stock Market turnover

Billion shares (Daily average)





Tokyo Stock Exchange: can its surveillance division cope?

Electronic trading is set to take over

Reforms at hand

THE enduring image of the Tokyo stock market, beloved by picture editors of newspapers the world over, is of bustling young Japanese floor traders in shirtsleeves, arms outstretched, fingers contorted into frenetic hand signals scrutable only to those around them. The only place for an order sheet is between the teeth, though that is no impediment to shouting.

The complex system of hand signals by which traders indicate a particular stock and the type of transaction they want to complete is just one more quirk that sets aside the Tokyo market from other major stock markets in a world where, increasingly, traders' fingers do the business by punching computer keyboards.

Like the long-standing local view on insider trading, and the quaint tradition of companies releasing market-moving information to the stock market tip-sheets before the exchange, such practices are having to change. Like it or not, mostly not, Tokyo has to face up to the implications of having become among the world's busiest stock markets.

For a country that can – and loves to – enhance anything from making cars to making bread by the application of computer chips, it is startling that the Tokyo Stock Exchange long remained an antiquated relic of a bygone age. For years lack of space on the trading floor was put up as the reason why foreign securities houses could not be admitted as members.

Resistance was strong to the computerisation of trading that would make the space issue academic. Members worried that, without a floor, there would not be the word-of-mouth flow of information, gossip, rumour and innuendo which is the Tokyo market's lifeblood.

As on most Asian stock markets, share prices in Tokyo move more on sentiment and less on economic fundamentals than do those on western markets. Share trading is just another sort of gambling (and often one of the few legal versions in Asian countries). Share punters are in for capital gains which have been all but tax free in Japan, though this may change as a result of the Recruit scandal. In such a market, moving in and out of shares quickly becomes the name of the game, and ramping of share prices is endemic.

Japanese share prices often bear only a passing resemblance to a company's business fundamentals. But, on the flip side, companies get away with treating their shares like bonds, paying a virtually fixed dividend, which time and rising markets quickly make tiny. Recently yields have been lower than one per cent, making Western measures of share performance such as price-earnings ratios meaningless.

Despite such sturdy barriers to change, the Tokyo market has had to drag itself into the future. In 1985 trading in 780 of the roughly 1,600 most heavily traded stocks went electronic. Last year, to cope with trading volume that can top 2 billion shares a day, and as part of a modernisation of the exchange, a further 100 of the most heavily traded stocks were added, leaving only 150 traded by hand.

The exchange plans to have all stocks traded electronically by the mid-1990s. By then it should have introduced new computers to replace the current set which embarrassingly failed under the strain on more than one occasion last year. Since an estimated 70 per cent of all orders are for less than 5,000 shares, the orders to total trading volume ratio is computer-crashingly high.

The new computers will have the capacity to handle daily trading volume of 5bn shares, levels that could be approached if stock futures and options trading takes off in Tokyo, thereby further stimulating demand in the underlying spot market. Even

Sign-off planned for the 1990s

then, though, not all share-trading will be electronic. Large-lot orders, which by then could well be subject to negotiated commissions, will still be done on the floor, though they will be inputed via terminals under a new system being developed by Fujitsu, the electronics giant.

Might it just be, though, that before then even dextrous men in shirtsleeves might become technologically redundant? On the exhibition plaza of the exchange's new building there is a robot which has been built to demonstrate the hand-signal trading system. When sent the appropriate electronic message, this automated head and torso cheerily waves the fibre-reinforced plastic fingers of its right hand around to indicate a company code. Send a second message, and it signals a transaction. Unlike the real thing, though, this automated trader can signal with only one hand. The torso would not accommodate the size of hydraulic motor needed to operate two arms.

Robot traders would also allow the exchange to introduce another change that is being discussed: the adoption of a New York-style single trading session in the day.

One Tokyo trader complains that a single session is fine for America, because "you can eat a hamburger with one hand and still trade with the other one". But not for Tokyo: "You need both hands to eat noodles using chopsticks."

James Andrews

Michiyo Nakamoto on the volatile government bond market

In search of stability

FOR THE past few years the Japanese government bond market has been characterised by a volatility that one would expect would scare even the most daring of gamblers. Last year the yield on the benchmark issue rose from 5.02 per cent to 5.40 per cent in a single day and many major banks and securities firms suffered huge losses in the year. Nikko Securities alone lost Y24.5bn (£109m) on bonds. Yet the massive funds that still pour into the market suggests that investors have far from lost their appetite for this highly risky instrument.

It is fortunate for these investors that the continuing liberalisation of Japan's financial markets seems likely to add a measure of stability to the market, while recent trends have shown that the bitter lessons of the past have not been lost on either investors or the authorities.

One aspect of the Japanese market that has caused prices to fluctuate wildly has been the excess concentration – over 90 per cent according to a recent report by SBCI Securities – on a single benchmark issue. Because Japanese institutional investors hold on to a large proportion of high-coupon bonds, there is an overall shortage of tradeable issues.

"There is all this money that has to go somewhere," says Mr Marshall Gittler, bond analyst at UBS Phillips and Drew. The underdeveloped state of Japan's short-term money market has also meant that the benchmark is used as a short-term instrument.

But with so much trading concentrated in the benchmark there is a dangerous tendency for the price to move drastically in one direction or the other. "It's mass psychology," says Mr Noboru Takesaka of Merrill Lynch. When investors see the price moving up they all pile in to start buying the benchmark, and when they see it going down, they all go on a mad rush to sell.

Highly speculative trading in bond futures has exacerbated the cash market's volatility. The relatively lax accounting rules that apply to futures transactions have made it a particularly easy target for speculation. When speculative investors grow concerned about a rise in interest rates, for example, their tendency is to sell heavily on the futures market. Because of the enormous size of the typical futures lot – from a normal lot of Y50bn to larger lots of Y200bn, according to Schroder Securities – the reverberations on the cash market can be staggering.

This year things could get worse before they get better. Massive redemptions of government bonds are expected this year – an estimated Y9.6 trillion (million million) for city banks alone – while new issues of government bonds will be reduced by Y1.3 trillion, from Y23.4 trillion in the current fiscal year to Y22.1 trillion in fiscal 1989. From late last year expectations of a tighter market led to a speculative rally that resulted in a sharp fall in the benchmark's yield.

Although measures to improve the present situation have been slow to come, those who have been watching the government bond market agree that change is on the way. For one thing, Japan's financial markets are in the midst of a wide-ranging deregulation: a variety of instruments should be made available to channel some of the excess funds away from the government bond market.

Mr Hirohiko Okumura, chief economist at NRI&NCC, says that as the authorities relax their grip on a whole range of capital instruments, investors will find more attractive investments in markets that are still underdeveloped.

One such area that is being developed by the finance ministry is the *tankoku* or short-term government bond market. The number of these bonds to be issued in the coming fiscal year will double from about Y2 trillion to Y4 trillion.

The finance ministry further hopes to minimise the adverse effects of a cut in new issues by concentrating reductions in issues that are traded less and retaining a reasonable amount of the more commonly traded 10-year bonds. The Bank of Japan, which normally repurchases its holdings of redeemable bonds, will also refrain from doing so, while the Trust Fund Bureau will trim the amount it repurchases by about Y1 trillion.

Meanwhile, restrictions on investments in foreign currency instruments by trust banks and agricultural co-operatives are already being lifted.

The ministry is also now considering the establishment of a bond lending market that would offer investors who do not want to sell their bonds the option of lending them to others for a fixed period. A bond lending market would be easier to use than *gensaki*, the conditional trading of bonds presently in use, since *gensaki* are considered securities transactions. Bond lending would offer investors more hedging opportunities and scatter the volatility that is presently locked into a market with few outlets. The start of a futures market in Chicago has already helped reduce volatility on the cash market in Japan by serving as a kind of pressure valve.

Issuing on a quarterly rather than monthly basis and changing the number of bonds issued each time are two possibilities the ministry is presently studying. While a quarterly issue would increase the liquidity of each issue it could lead to an oversupply in the event of a bear market. On the other hand, by changing the number to be issued each time, market conditions and seasonal factors which contribute to fluctuations in demand could be taken into consideration to help reduce volatility, says Mr Takehiro Amemiya, assistant general manager of the capital markets group at Mitsubishi Bank.

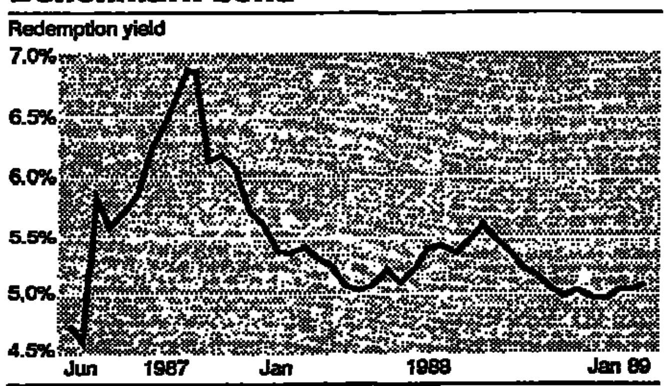
Meanwhile, a proposed change in the accounting rules of banks has already led banks to let go of their captive high-coupon bonds and increase investment in low-coupon bonds, making it less likely that low-coupon bonds will be sold heavily in order to cover futures positions – a practice that has been blamed for creating volatility on the cash market.

The Bank of Japan is also playing its part. Since November the central bank has changed its tactics on the short-term market to injecting funds on a weekly, rather than the normal monthly basis, making it more difficult for investors to speculate about the Bank's intentions.

Mr Yo Mizukoshi, manager of bond trading at Mitsui Trust and Banking, thinks that investors trading government bonds have also become more sophisticated as they learn from their past experiences. Heavy losses incurred through bond trading have led to the retreat of the more speculative types. That leaves the professional traders largely in control and they are less inclined to take such damaging risks, says Mr Mizukoshi.

Whether as a result of outright changes in the market or simply more sophisticated trading practices, the government bond market is already beginning to change. In the short-run, confidence in the strength of the Japanese economy is the mainstay to market stability. Says Mr Mizukoshi: "Since nobody thinks interest rates will rise drastically, selling will prompt buying. Volatility will be reduced."

Benchmark bond



'There is all this money that has to go somewhere'

CORPORATE BONDS

Domestic market loses out

THE RULES which force Japanese companies, residents of the world's largest creditor nation, to obtain a substantial proportion of their financing abroad are not going to be abolished overnight.

But the Japanese authorities are trying to find ways of making the existing system more attractive without upsetting either the banks or securities companies which fight over every inch of territory in the financial markets.

As a result of the battle between banks and brokers, the domestic corporate bond market has been allowed to wither while the Euromarkets have grown strong. From a peak in 1975 when Y1.5 trillion (£6.7bn) of straight bonds were issued, the domestic market has declined steadily. The value of straight bonds issued in the first eight months of fiscal 1988, ending this March, was just Y649bn.

One of the major obstacles to the market's growth has been the strict eligibility rule that has restricted the issue of corporate bonds. In addition, most companies are required to commission a bank to arrange collateral.

The time it takes between the decision to launch an issue and the actual launch has also been much too long – up to two or three months. And a quota system restricts the number of bonds a company can issue in a given period.

All this makes the domestic market far more expensive than the Euromarkets. Moreover, the dollar to yen interest rate swap deals which are so popular in the Euromarkets are impractical on the inflexible domestic market.

The finance ministry has long recognised the need to relax controls and has taken a number of measures to do so in recent months. In October last year the ministry also introduced a system to cut the waiting period down to about two weeks for a blue-chip company.

Since last November large companies have been able to obtain credit ratings to become eligible to issue bonds or to issue unsecured bonds without meeting minimum criteria for assets or capital.

But progress has been painfully slow. Japanese law prohibits banks from broking corporate bonds and the clashing interests of the banks and securities companies involved have made the process a hopelessly tangled one. The authorities' reluctance to upset the Euromarkets has not helped to speed things up.

For example, the growing use of credit ratings has helped to increase the number of companies eligible to issue bonds as well as those that can issue unsecured bonds, but further moves to ease the collateral requirement would be bitterly opposed by banks, which do a profitable business earning commission.

Securities firms, meanwhile, want the collateral rule abolished, claiming that banks are allowed to earn commission income with no risk at all while securities firms are always taking a risk in underwriting an issue.

Similarly the quota system restricting the amount of bonds an issuer can launch in a set period has been eased but not scrapped.

"Japan is one of the few countries in the world where such a limit exists," says Mr Kazuo Tanaka, deputy general manager of the Capital Markets Division of Nomura Securities.

The ministry defends its decision to keep quotas on unsecured bonds as a means to protect investors. Securities companies suggest that the rule is evidence of the system favouring banks. One manager at a major securities firm said "maybe the banks are worried companies won't need to borrow from them any more".

Meanwhile, the issue of bonds by foreigners in Japan does not look so bright either. Samurai bonds, or straight bonds issued by a foreign institution in yen, saw 15 issues last year against a total of 13 in 1987. Again, steps to deregulate the market, such as the introduction of shelf registration last November, are expected to help stimulate the market.

Shogun bonds, which are bonds issued in a foreign currency in Japan by a foreign institution, have more or less been wiped out of existence by the strong yen. No shogun bonds were issued last year and the outlook for the market looks fairly bleak. With a much more convenient and cheaper Euromarket available there is little incentive for issuers. Demand has also been low. "The yen is so strong that demand for other currencies in Japan is relatively weak," says a trader at one of the major securities firm.

However, there is one bright corner in the domestic corporate bond market – convertibles, which have enjoyed a popularity in the domestic market that is unmatched overseas. Last year convertible bonds issued overseas constituted a mere 5.6 per cent of overall financing by Japanese companies, while those issued domestically amounted to 40 per cent of the total, according to a study by Nomura Securities.

Given the buoyancy of Japanese equities last year, and the fact that the issuing procedures for convertible bonds are no more complicated in Japan than on the Euromarkets, these figures should come as no surprise. Also, a forthcoming change in the accounting rules of banks has triggered a rally on the secondary market and could make convertible bonds look even more attractive in comparison with straight bonds. Tokyo Electric Power's No. 1 convertible bond listed on the secondary market on February 9, for example, was so popular that it rose from an issue price of Y100 to Y129.90 within the second day of listing.

The possibility of allowing Japanese companies to issue dollar warrant bonds in Japan as another way of stimulating the domestic market is once again being discussed but the chances are slim that this will be realised soon.

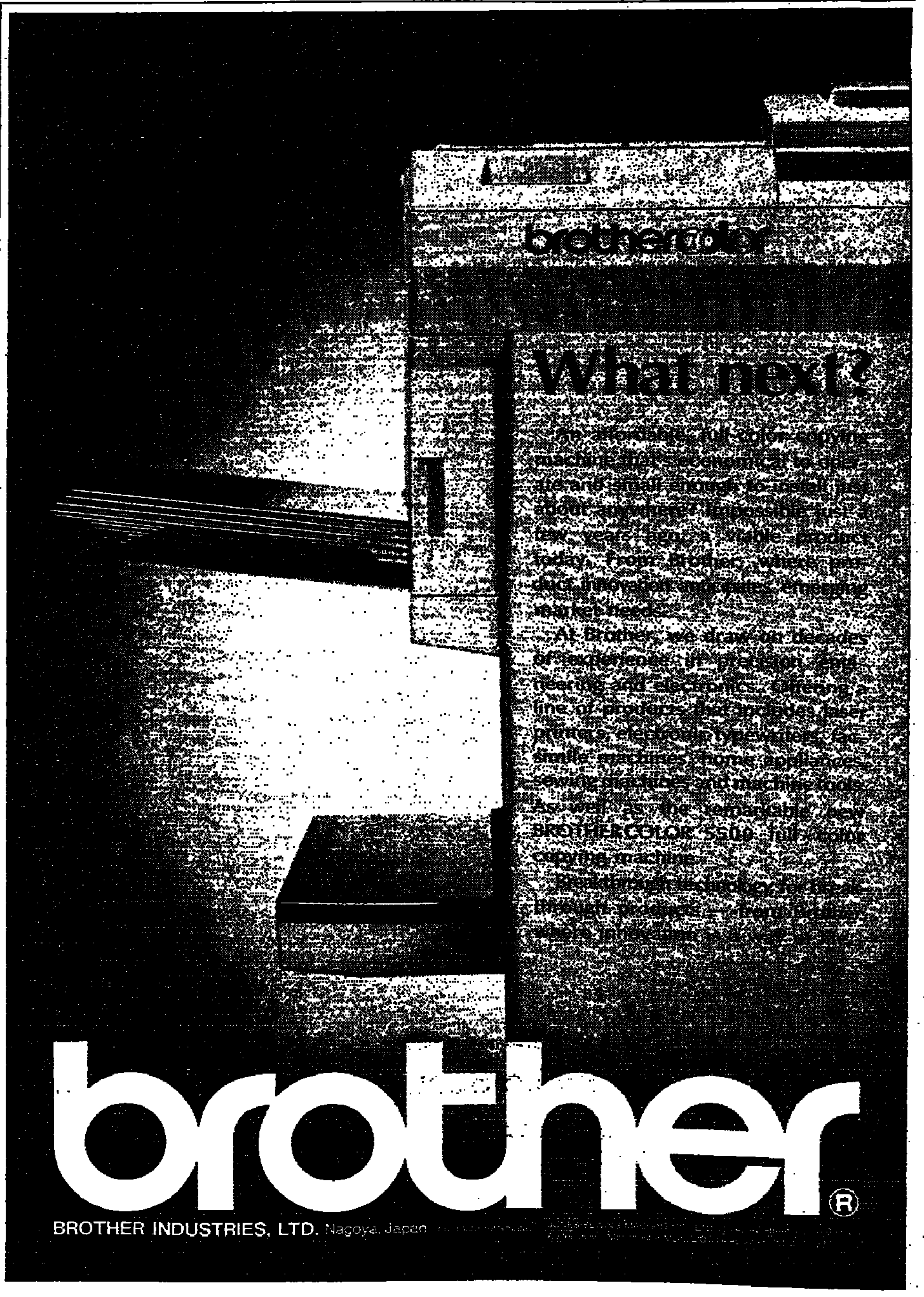
While banks' affiliates can co-manage dollar warrants on the Euromarkets, Japanese law limits the underwriting of such issues to the securities firms.

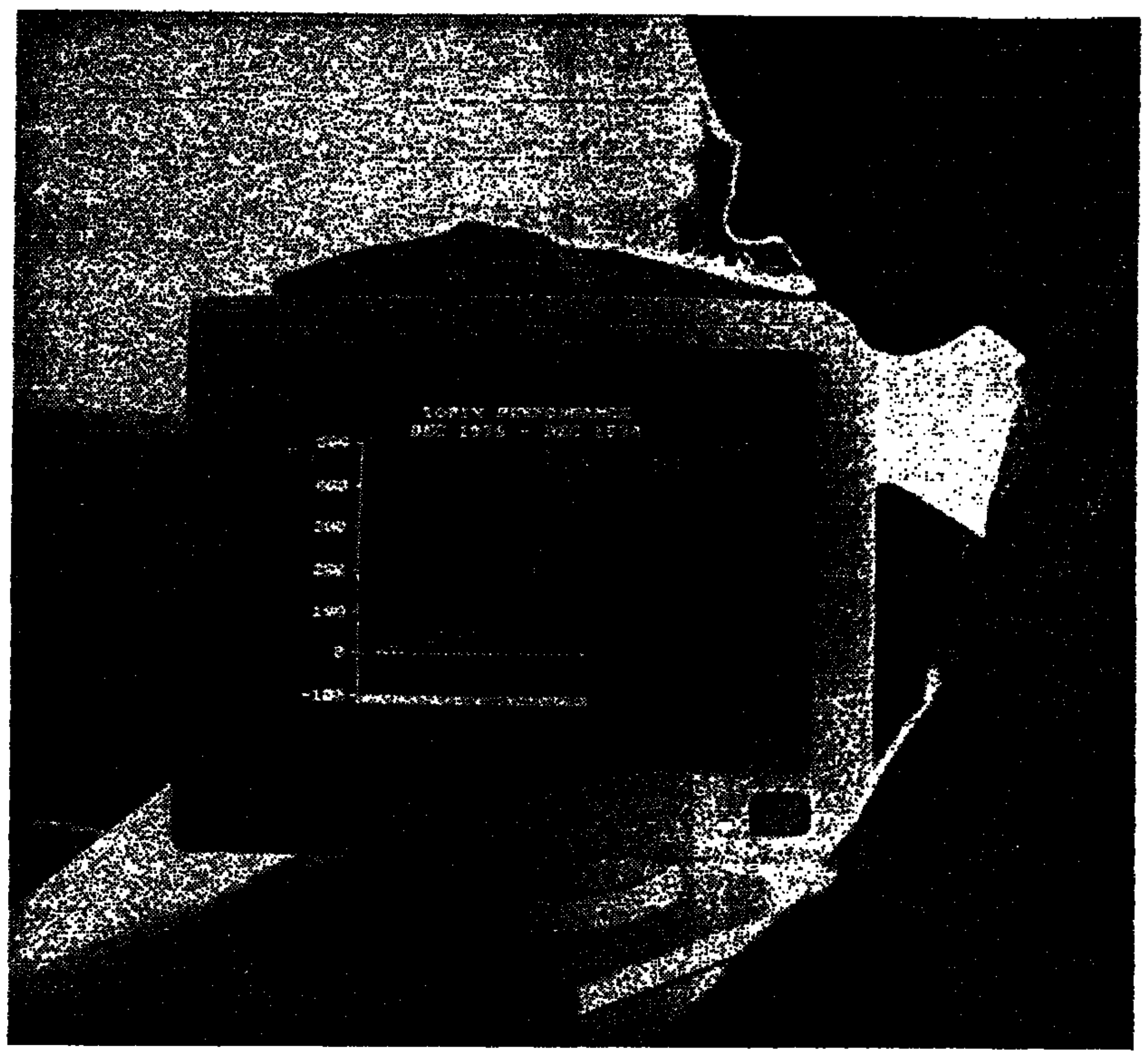
If a dollar warrant market were to be started in Japan banks would do their utmost to secure a place for themselves in it while securities firms would strongly resist their entry.

Michiyo Nakamoto

Bond trading floor of the Tokyo Stock Exchange

Progress has been painfully slow. The clashing interests of the banks and securities companies involved have made the whole process hopelessly tangled





HOW TO BALANCE YOUR INVESTMENT RISKS AND REWARDS

Your portfolio can go up or it can go down. But how far? Why? Do you know what your investment risks are? Can you estimate what the rewards are likely to be?

Nikko's Investment Technology will give you a clue. Nikko takes its comprehensive markets database and analyses it, using our advanced software, to design portfolios that suit your needs. We call it Investment Technology.

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JAPANESE FINANCIAL MARKETS 10

John Ridding on the personal savings market

Fight for a nation's thrift

THE PERSONAL savings market has become one of Japan's most fiercely contested financial markets. From the smallest credit association to the largest life insurance companies, financial institutions have sought to defend or expand their business.

The trend is not difficult to explain. By the end of last year, estimates Mr Akimura Miyauchi, a general manager at Nomura Securities, the personal savings market was in the region of Y750 trillion (million million). If nominal GNP grows at around 4 per cent and savings and interest rates remain fairly constant then the figure should further increase this year by over Y60 trillion (£268.1bn)

Furthermore, the process of deregulation which is spreading throughout Japan's financial markets has provided the opportunity for competition. Financial institutions are finding it increasingly difficult to protect their deposits behind the barriers of official regulations which define their areas of business.

The first major change came in April last year with the abolition of tax free savings accounts or *Maruyu* which were available from commercial banks or the giant postal savings system. Although individuals were supposedly limited to holding Y14.5m in these deposits, the system was abused – through multiple accounts – to the extent that it accounted for over one-third of Japan's personal savings.

Because of the presence of other variables the precise effect of the abolition on the pattern of savings is difficult to determine. It seems, however, that the initial impact was dramatic with depositors shifting funds from *Maruyu* accounts to instruments with higher returns offered by trust banks, life insurance companies and and securities houses. According to statistics from the Nomura research institute, for example, commercial banks fixed rate term deposits lost over Y1.8 trillion in March to June 1988, while postal savings accounts were reduced by Y131bn.

Since then an effective sales campaign by the post office has more than recouped the loss. By the end of the year the outstanding balance of personal savings at the post office was up Y27bn at a staggering Y124 trillion.

For the commercial banks the impact was also reduced, by large inflows into deregulated Money Market Certificate deposits. Nevertheless, for the year as a whole, new personal savings deposits were well down on 1987.

While the commercial banks were the principal victims of the reform, the main beneficiaries were higher return instruments offered by rival institutions. "Big" accounts, the floating rate instrument of trust banks, saw an increase of Y1.29 trillion between March and June, while single premium life insurance policies received Y900bn.

The episode emphasised the need for city banks to be able to offer higher returns and increased pressure for interest rate liberalisation. Further deregulation was, however, blocked by the Post Office which stood to lose the marginal interest advantage it enjoyed over commercial bank deposits. After an extended period of negotiations between the Ministry of Finance and the Ministry of Post and Telecommunications, which manages the postal savings system, a compromise was finally reached at the end of last year.

Under the agreed system the post office will retain largely intact its highly attractive *teigaku* deposit system. These accounts, with a 10-year maximum term and high liquidity, are described by an official of the Japanese bankers association as "an extremely advantageous savings instrument".

Consequently, the commercial banks along with the MoF had wanted the system thoroughly revised.

Shopping and snapping in Tokyo. But, with an average of only eight days annual leave, the opportunities for conspicuous consumption are few

In return, the MoF is allowing commercial banks to introduce Money Market Certificates with denominations as low as Y3m (currently the minimum sum is Y10m). The first new certificates, with maturities of six months and one year, will be introduced in June; from October, longer maturity certificates will be available.

The process of interest deregulation, of which the new certificates represent the latest step, will help the commercial banks win clients back from their competitors. The other beneficiaries will be average wage earners who, for the first time, will be able to buy savings instruments which pay rates higher than ordinary bank accounts. With the continuation of the process – most analysts expect the minimum deposit to be reduced to Y1m by next year – members of even lower income brackets will gain access to higher returns.

The losers from the deregulation process are expected to be the smaller *sogo* or mutual savings and loans and the 500-odd credit associations which currently receive the bulk of their deposits from small accounts and which will find it increasingly difficult to compete with the commercial banks. Many have already experienced a decline in assets.

Interest rates are not, however, the only weapon in the current battle for personal savings and, for the large proportion of savings which show little interest sensitivity, other considerations are more important.

The postal savings system, for example, can count on a huge network comprising over 23,000 branches in its bid to retain depositors. In addition, it is able to offer an increasing number of services to its clients. In return for accepting the abolition of *Maruyu* accounts, for instance, it was allowed to sell government bonds to its clients and offer a deposit account which compounded the interest received.

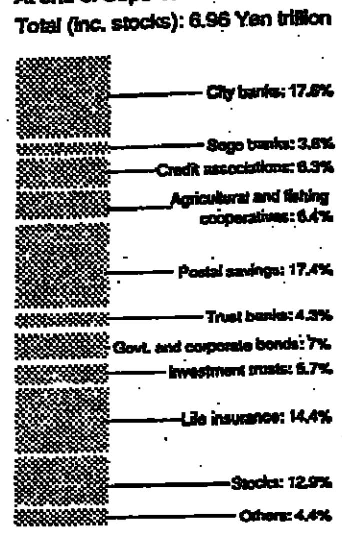
Over the next few years the post office is certainly going to need these advantages. In 1990 Y30 trillion worth of 10-year fixed deposits mature and the competition for the liberated funds will be intense.

Although many of the city banks also have large branch networks their comparative advantage lies in the services, particularly financial, that they are able to offer their customers. These range from foreign exchange dealing to advice on real estate development. A further area, which is becoming increasingly important, is the provision of personal loans.

Personal savings: where they are

At end of Sept. 1988

Total (inc. stocks): 6.96 Yen trillion



Source: Bank of Japan

According to Mr Yoshiko Miyabe, of Yasuda Trust and Banking: "many banks are now offering reduced interest rates on loans if the applicant holds an account with them". He adds: "Banks are now far less conservative about making loans. It is no longer necessary to specify the purpose of borrowing." As a result the market has grown rapidly. Yasuda, for example, has been experiencing a net increase in personal loans every month.

The losers are expected to be the smaller *sogo*

On the face of it, the shifts in the pattern of personal savings brought about by these various areas of competition do not seem dramatic. The post office and the commercial banks together, for example, still accounted together for 35 per cent of the market at the end of September 1988, down only around 3 per cent since the same period in 1985. The main gainers such as the stock market, investment trusts and life insurance policies saw gains of between 2.5 and 4 per cent.

But this apparent stability is perhaps misleading. The sheer size of the market means that shifts in market shares are bound to seem slow. It also means that each percentage point, currently worth over Y7 trillion, is well worth fighting for.

OFFSHORE MARKET

Filling a short-term gap

THE SPECTACULAR growth of Japan's offshore market (JOM) since its beginning in December 1986 has been supported to a great extent by the short-term funding needs of Japanese banks.

While the authorities' new-found resolve to stimulate the domestic short-term money markets threatens to undermine this pillar of the JOM's strength, the advent in Tokyo of two new financial futures markets, and the opportunities for hedging and arbitrage that they will provide, promise to add a new dimension to offshore activity.

In its little more than two years of existence, Japan's offshore market has seen a remarkable surge of activity with net assets reaching over $400bn (£232bn) at the end of last year, according to the Ministry of Finance. That places it far above New York's International Banking Facility with net assets of about $290bn in the same period, although still far behind London's offshore market.

The bulk of the activity on the JOM has, in the past, come from banks seeking short-term funding. The role of the offshore market as an interbank lending market for short-term needs was enhanced by the extremely limited nature of the domestic markets. The Japanese authorities have kept a tight ceiling on seepage from offshore accounts into the domestic market, limiting the flow to 5 per cent of a bank's average balance of transactions with non-residents in the previous month. Nevertheless, banks have been able to bring more of their offshore funds into their onshore accounts by using inter-office swaps.

As the liberalisation of Japan's financial markets gathers pace, the authorities have begun to take concrete steps in building a fully functional domestic market for short-term funding. The liberalisation last November of interest rates on three-month call bills, for example, threatened to rob the JOM of its major role as a short-term lending market. Additional changes, such as an extension of bill maturities to one year, could further shift activity away from the offshore market to the domestic markets. What has saved the JOM so far has been an increase in arbitrage between domestic call bill interest rates and JOM rates.

While the JOM's role as a source of short-term funding may be shrinking with the greater deregulation of the domestic markets, the start of interest rate and currency futures markets in Tokyo this June promises to keep offshore activity alive by offering investors more opportunities for hedging and arbitrage between their cash yen accounts on the JOM and Euroyen futures.

"There is no question that volume on the JOM will increase as new hedging, arbitraging and speculating possibilities arise," says Mr Minoru Chiba, assistant general manager of the Treasury Division at Dai-ichi Kangyo Bank. Investors will be able to arbitrage between offshore yen and Euroyen futures, which will be traded on the Tokyo Financial Futures Exchange, as well as between offshore interest rates and interest rate futures.

In addition, Euroyen futures will offer a much needed hedging tool for yen positions during Tokyo hours and this will be an added attraction for holding JOM yen accounts.

Since Euroyen futures will be traded for the first time and are expected to attract considerable interest as a hedging tool, yen volume on the offshore market, in particular, should increase, says Mr Shizuo Nagaki, deputy general manager of the Treasury Department at Sumitomo Bank.

Once the financial futures markets open, it is also likely that foreign banks will increase their presence on the JOM which will offer them more arbitrage possibilities.

When the advantages of arbitraging become less pronounced, the tug-of-war between the offshore market and the domestic short-term market may intensify.

In the meantime, the finance ministry is considering the possibility of easing regulations on the offshore market to stimulate activity. Steps being discussed include simplifying filing procedures, and lifting the ceiling on seepage from 5 per cent to about 10 per cent. The ministry is not, however, considering the removal of the much criticised stamp duty.

Michiyo Nakamoto

Financial futures markets are expanding rapidly

New set of much-needed hedging instruments

JAPAN'S financial futures markets are currently undergoing a phase of rapid expansion. Last September two new stock index futures were launched. Options based on the same indices will follow shortly and, in June, a new financial futures exchange offering short-term interest rate and currency futures will start trading in Tokyo.

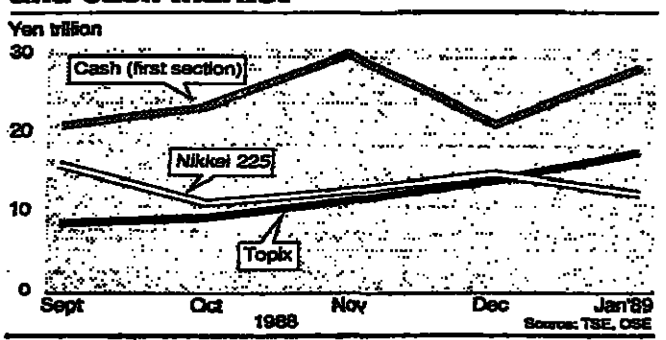
Taken together, the new instruments will provide Japanese investors with much needed means of hedging against adverse movements in the stock, money and currency markets. They will also mark a further step in the internationalisation of Japan's capital markets and of futures trading as a whole.

Despite the introduction of the new futures, however, the markets on which they will be traded remain regulated in a number of important respects. Most significantly, the original proposal by the Financial System Research Council to establish a single unified futures exchange with free competition between financial institutions was rejected. Instead, equity-based products are to be traded on the existing stock markets while currency and money market products will be traded separately on the new Tokyo Financial Futures Exchange.

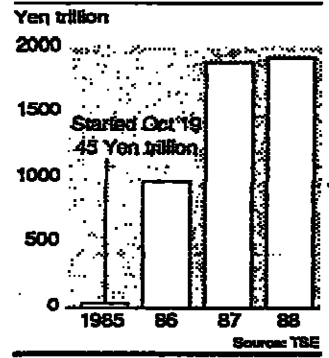
Consequently, the division between securities firms and banks will also continue to apply. Securities houses will be barred from trading currency options since the executions of option rights would involve the handling of cash currency transactions and therefore contravene the banks' valuable monopoly of foreign exchange business. Similarly, banks are barred from broking stock index futures and options.

Notwithstanding the existence of these restrictions, trading on the various new markets is expected to be large. By way of precedent, bond futures trading, which was launched in 1985, soon exceeded cash market volumes, although growth last year was very modest as a result of a flat cash market.

Volume of stock index futures trading and cash market



Bond futures volume



Chronology of Financial Futures Trading

Oct 85	Trading in 10 year government bond futures begins
June 87	Trading in stock futures 50 begins at OSE
July 88	Trading in 20 year govt bonds futures starts
Sept 88	Trading in Nikkei 225 and Topix stock index futures begins
May 89	T bond futures trading scheduled to start on TSE
June 89	Tokyo financial futures exchange to open. Will trade 3 month Euroyen interest futures, 3 month Eurodollar interest futures and yen-dollar currency futures
June 89	OSE to start trading Nikkei 225 index options
Oct 89	TSE to start trading Topix stock index options

Similarly, Stock index futures trading, which was introduced in September, quickly recorded huge turnovers. Combined volume on the Nikkei 225 stock index futures, which are traded on the Osaka Securities Exchange, and on Topix stock index futures, which are traded on the Tokyo Stock Exchange, is already in excess of the underlying cash market. This is particularly impressive given that it took three years for trading on S&P 500 index futures to exceed volumes on the spot market.

Trading on the various new markets is expected to be large

Stock index options trading, which will be launched on the OSE in June and on the TSE in October, is expected to be similarly active because of the flexibility it provides in short term stock hedging.

"There is huge hidden interest," claims Mr Tadashi Kawakami, a manager in the futures department of Nomura Securities. "We expect options volume quickly to reach levels on the futures and spot markets."

While the OSE and the TSE are providing means of share hedging and speculation, the new products on the TFFE will, by contrast, help satisfy the increasing need of Japan's financial institutions to hedge interest rates and currencies.

In recent years interest rate risk has risen as the deregulation of the domestic money market has resulted in the rapid growth of assets subject to floating rates and an increase in the role of market related instruments in banks' fund raising.

As for currencies, the huge exchange losses suffered by Japanese financial institutions in recent years, and the increasing use of foreign currency for short-term transactions, has similarly increased exposure to risk.

Consequently, the new futures are expected to receive an enthusiastic response. Mr Hiroshi Watanabe, a products planning manager at Nikko securities, believes the introduction of Euroyen interest futures is particularly significant. "The TFFE will be the first market on which they are available and we expect trading volume to equal half of the Eurodollar futures market within one or two years."

While trading volumes are expected to rise rapidly, however, the development of trading techniques is expected to take longer. Stock index futures trading, for example, has so far been dominated by straight speculation on the level of the index, although a number of the foreign brokers have used their greater expertise to take advantage of more sophisticated arbitrage opportunities between the cash and futures indices and between the futures indices themselves.

Partly because of the lack of expertise on the part of domestic institutional investors, trading on stock index futures has been very narrowly based. In January, over 80 per cent of Topix futures trading was carried out by securities firms on their own account. Banks, the next highest category, accounted for less than five per cent. The gap was even higher for Nikkei 225 trades.

Whether this situation improves depends on whether the large banks and life insurance companies play a more active role in the market. Mr Kawakami is optimistic. "Some of the bigger institutions have shown remarkable progress lately," he claims. "Topix trading is now seeing more activity from these players, although the same is not yet happening on Nikkei 225 futures trading." Sophistication of trading is also improving with a growing emphasis on inter-index and futures-spot arbitrage.

However, the fact that securities houses must play a market making role in Japan and that there are as yet no local professional traders, as there are in Chicago, suggests that securities firms will continue to dominate trading for the foreseeable future.

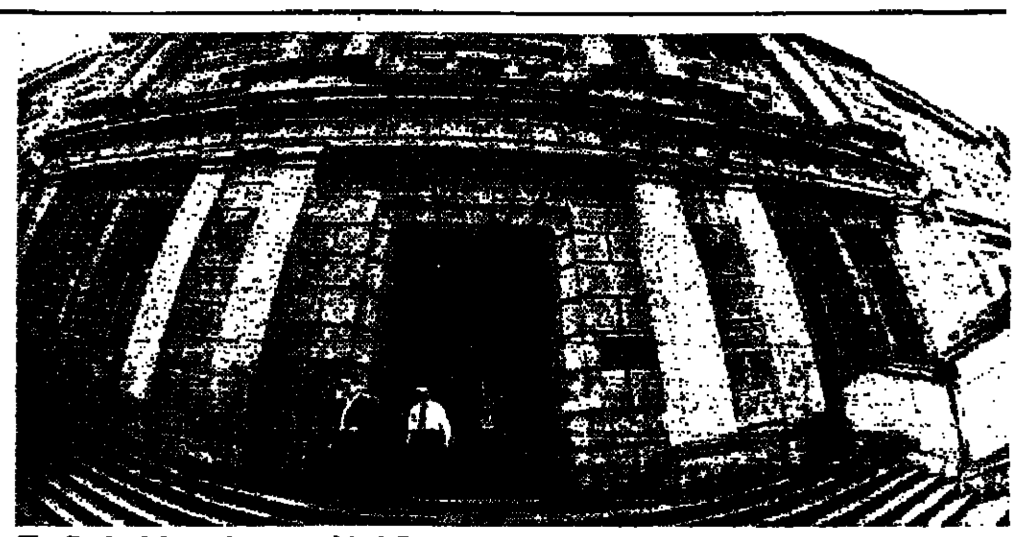
Internationalisation of futures trading will be stimulated

In addition to providing new areas of hedging and speculation the new instruments will also stimulate the internationalisation of futures trading. By the end of the year the Nikkei 225 and the Topix stock index futures are scheduled to be traded on the CME and the Chicago board of Trade respectively. Ten year government bond futures, which are already traded on LIFFE, are due for introduction later this year, or early next year, on the CBT. Also, the launch of Eurodollar futures trading on TFFE will create a 24-hour market.

But the new futures will also have their victims. The Singapore International Monetary Exchange is particularly threated because two of its main contracts – Nikkei 225 stock futures and Eurodollar deposit futures – will be in direct competition with the new Japanese instruments. The OSF50 contract, Japan's first stock future, is also finding the new environment difficult. According to Mr Watanabe: "Its chances of survival are not good. We think it may disappear in one to two years."

John Ridding

Cleaning up on the Tokyo Stock Exchange



The Bank of Japan has turned to influencing rates in the short-term money market

SHORT-TERM MONEY MARKETS

Sphere of influence

SHORT-TERM money markets in Japan have been reformed radically since last November though they remain small and underdeveloped compared to the US. The Bank of Japan is attempting to reassert more sophisticated influence over interest rates so it can better implement monetary policy. The central bank's accustomed control has been weakened by the deregulation of the country's financial system, which had already killed the bank's powers to ration credit through guidance on bank lending.

In the past, the official discount rate has acted as the benchmark for all regulated interest rates. But it has become an ineffective tool for purposes of monetary policy. An increasing number of interest rates are not regulated, while Japan's international commitments to co-ordinate interest-rate policies has made it more difficult to raise the official discount rate to choke off perceived threats of inflation.

The Bank of Japan's ability to raise the rate, which has stayed at an historic low of 2.5 per cent since February 1987, is circumscribed anyway because the bank has only one vote on the seven-man board of bureaucrats and private bankers responsible for changing the rate. So it has set about decoupling the official discount rate from market interest rates, leaving the benchmark rate, like America's discount rate, a lagging, not leading indicator of policy.

To pursue its monetary policy and, in current circumstances, to raise rates, the Bank of Japan has turned instead to influencing rates in the short-term money and interbank markets. The short-term money markets are broader than they were up until the early 1980s when the principal open-market instrument was the *gensaki*, a security with a repurchase or resale agreement, but they were still not sufficiently developed to allow the central bank to carry out sophisticated operations efficiently. So the Bank of Japan set about deregulating the markets and creating more instruments to enhance its scope to manipulate them.

In November it took major steps in this direction. One was to expanded the scope of the discount-bill market by shortening maturities to less than one month. It now allows trading in one- to three-week bills.

The other was to lengthen the longest maturity in the unsecured call market from three weeks to six months. The bank could present this as a sympathetic response to complaints by foreign banks that liberalisation of the short-term money markets was squeezing them out of the unsecured call loan market. The market is their main source of funds in Japan since they lack a local deposit-taking base, having few, if any, branches. But the bank's hidden agenda is to encourage funds that have flowed to the less-heavily regulated Euroyen market to return to the domestic market.

A similar repatriation has already happened to the domestic interbank as a result of November's changes. These revived the interbank market which had effectively decamped to the Tokyo offshore banking market. This was because of a wide disparity that had emerged onshore between interbank rates and other short-term interest rates. (Although the offshore market, set up in 1986, was meant to be used for non-resident banking transactions, this restriction was easily enough dodged through inter-office transfers.) The central bank has started using one- to three-week bills and commercial paper in its own buying operations which have traditionally involved transactions in two-month discount bills. Buying operations focusing on instruments with shorter maturities should allow the central bank to operate with more mobility and flexibility.

To increase the bill market's liquidity, the Bank of Japan has, from January, eased both the trading rules and restrictions that hampered banks from arbitraging between short-term and long-term interest rates such as limits on the amounts of funds they can take from the unsecured call market and ceilings on holdings of certificates of deposits. Until then, the average monthly balance of holdings of certificates of deposits was limited.

An earlier step to increase the size of the short-term money markets had been to start a market in yen commercial paper – a sort of securitised overdraft. Set up in December 1987, it was further liberalised last December to broaden and deepen it by more than doubling to 400-450 the number of companies qualified to issue commercial paper. The range of allowable maturities was also enlarged from 1-6 months to anything between 2 weeks and 9 months.

The latest stage in this decoupling of the official discount rate is the introduction of a new short-term prime rate for loans by the commercial banks to their best customers. Short-term prime has previously been set by adding a premium to the official discount rate. In future, the banks will calculate a new rate from an average of four sorts of interest rates (for certificates of deposit, discount bills, small- and large-lot time deposits, and call money) weighted to reflect the banks' sources of funds.

The next stage will be an extension to short-maturity treasury bills of the auction system now being introduced gradually for long-term government bonds. Development of an American-style treasuries market, long favoured by the central bank, has been held up by the finance ministry's opposition. It has taken the Americans to break the log-jam, having threatened to revoke primary-dealer licences held in America by Japanese securities houses and banks if progress is not made quickly.

A hint of American dissatisfaction about the rate of progress came from Mr Wayne Angell, a Federal Reserve Board governor, during a visit to Tokyo in January. He said that Japan's short-term money markets were not fully developed. The Ministry of Finance has said it will issue six-month treasury bills in fiscal 1989. Word in Tokyo is that American-type T-bill auctions for finance bills (as two-month treasury bills are known in Japan) may be introduced, too. Some observers see the way the Bank of Japan has been operating its commercial-paper operations – dealing only with major banks and securities houses much in the manner of the primary dealer system in America – as a dry run for treasury bills.

As well as liberalising the primary market, there is also a need to remove a long-standing obstacle to the development of the secondary market in Treasury bills: the imposition of withholding tax. The finance ministry is currently considering whether to abolish this.

James Andrews

MERGERS AND ACQUISITIONS

Overseas expansion route for wide range of industries

JAPANESE corporate acquisitions overseas, once as rare as moon landings, have become commonplace.

Last year, alone, Japanese companies completed foreign acquisitions worth $15bn (£8.5bn), four times as much as in 1986. At the top of the list was the $2.6bn purchase of Firestone Tire & Rubber by Bridgestone, the tyre manufacturer, which easily exceeded the $2bn paid in late 1987 by Sony, the electronics company, for CBS Records. But behind these mega-deals were dozens of others worth up to $100m.

"The growth is incredible," says Mr Toshihiko Yamamoto, joint general manager of the investment banking department of Sumitomo Bank. And he adds there is every sign that it will continue with companies in a wide range of industries looking to expand overseas by acquisition. Sumitomo Bank alone expects to close around 100 deals in 1989 worth $5bn.

With the bulk of acquisitions funded by loans, banks are better placed than securities companies to promise finance for the deals they arrange

Financial companies have been moving fast to cash in on this bonanza. Commercial banks have made most of the running, including Sumitomo Bank, Industrial Bank of Japan, Long Term Credit Bank and Bank of Tokyo. Coming up from behind are the Big Four securities companies, among them Nomura Securities, which last year spent $100m on a stake in Wasserstein, Perella, a Wall Street mergers and acquisitions specialist.

Meanwhile, foreign companies, principally US investment banks, have busily expanded their mergers teams in Tokyo. Morgan Stanley, Salomon Brothers, and Bankers Trust, all have sizeable specialist groups in place.

Japanese acquisitions overseas in 1988

Buyer	Acquisition	Price
Bridgestone	Firestone Tire	$2.6bn
Seibu Saison	Inter-Continental Hotels	$2.3bn
Nippon Mining	Gould	$1.1bn
Bank of Tokyo	Union Bank	$750m
Daishowa Paper	Reed International paper ops	$550m
Shiseido	Zotos International	$345m
Ryobi	Singer Motor Products	$325m
Jusco	Talbots	$325m
Onoda Cement	Calmat's cement ops	$310m

Japanese banks have so far had the upper hand in the contest. They were, themselves, among the first Japanese companies to make acquisitions abroad – starting with Fuji Bank's acquisition in 1984 of Walter E Heller. Since then, three Japanese banks have bought Californian banks, including the Bank of Tokyo which acquired two.

The banks are well-placed to exploit their close contacts with Japanese industry. Leading city (commercial) banks – including Mitsubishi Bank and Dai-Ichi Kangyo Bank – are at the centre of groupings of companies loosely-connected by trading ties and by cross-shareholdings. Meanwhile, IBJ, as a long term credit bank, has the advantage of having been the main channel for long-term lending to industry in the years of Japan's post-war recovery and expansion. It has long-standing links with some 160 large companies, plus a host of useful connections with government ministries.

Moreover, with the bulk of Japanese acquisitions being funded by loans, banks are better placed than securities companies to promise finance for the deals they arrange. Also, an important consideration in a snobbish country, bankers have a better image than stockbrokers in Japan.

But the securities companies are trying hard to overcome their disadvantages. Indeed, Yamaichi Securities, the fourth largest broker, was the first Japanese company to establish, in 1973, a mergers and acquisitions team. But Yamaichi's forte is in closing deals between modest-sized, often privately-owned Japanese companies. It is not clear that this domestic experience can easily be transferred to the international market.

The securities company the banks fear most is, not surprisingly, Nomura. Nomura's decision to link with Wasserstein, Perella last year was a tacit admission that it had been left behind in the mergers and acquisitions market by trying to develop its skills in-house. But it is ready to throw huge resources behind the business – including NRI&NCC, its research centre, the world's largest private think-tank.

Foreign companies come to the Japanese market with some important advantages. They have skills that the Japanese lack – in appraising possible purchases, in accounting and legal expertise. They also are much better placed to locate potential acquisitions – through their contacts in the US or Europe.

Japanese groups have acknowledged their weaknesses. Aside from Nomura, Nikko Securities, Yamaichi, IBJ and Long Term Credit Bank all have forged links with Wall Street specialists. Sending staff to the US for training is a key element of the agreements.

However, a battery of skills does not compensate for the foreign mergers and acquisitions teams' lack of close contacts with Japanese industry. Nevertheless, there are profits to be made for companies which bring special knowledge to a deal – for example, a good understanding of European Community law to a proposed European deal. Mr Kunihide Itoh, head of corporate consulting at Paribas Capital Markets, an affiliate of the French bank, says: "Clients realise that Japanese banks are not 100 per cent equipped for foreign deals. Maybe we are not in the best position ourselves, but we are in a position to play a useful role."

The consensus in Tokyo is that the Japanese appetite for acquisitions will continue to grow quickly in the short-term though the pace may slow subsequently. Sumitomo Bank's Mr Yamamoto points out that the market is cyclical.

Political considerations also play a part. In the US particularly, there is growing public opposition to Japanese acquisitions – even though these are much smaller in total than Britain's. Japanese financial companies have found it increasingly difficult to make acquisitions in the US, notably of primary dealers in US Government bonds. Fujitsu, the computer company's, planned takeover of Fairchild of the US was blocked by government intervention.

Foreign companies have skills that the Japanese lack. They are also better placed to locate potential acquisitions through their contacts

The Japanese will continue to advance cautiously, avoiding contested bids, for example, where at all possible. Groups in many industries have come to believe that acquisitions are the only way to advance in international markets.

In the meantime, Japanese companies will watch carefully to see how successful recent big bids turn out to be. Some Japanese groups have, in any case, been criticised in the West for paying too much for their purchases. The Japanese say time will tell.

Stefan Wagstyl

Tokyo steals the limelight from the Osaka Securities Exchange

Second fiddle's new tunes

ON THE face of it, Osaka's development as a financial centre has been progressing strongly. Over 31bn shares were traded on its stock exchange last year, which, in value terms, made it the world's fourth largest market. A new stock futures index was launched, instantly achieving massive turnover, and trading on this new instrument was successfully computerised.

But despite these impressive achievements one problem continues to cloud the prospects for Osaka's markets – the inexorable concentration of financial activity in Tokyo.

Since its establishment in 1949 the Osaka Securities Exchange has experienced a steady erosion in its share of Japan's stock trading as funds and financial institutions have centred on the nation's capital. By 1970, years of decline had left the OSE accounting for only 20.6 per cent of Japan's total share trading and less than 28 per cent of volume on the TSE.

Last year the figures reached new lows. The share of total trading fell below 10 per cent for the first time and volume was only 11.2 per cent that of the TSE. Particularly worrying for Osaka was that this represented a sharp fall over the figures for 1987.

Mr Jiro Yagi, director of futures trading at the OSE, admits he is concerned. "The trend is difficult to reverse," he claims. "Tokyo is increasingly seen as the centre of economic activity and even a number of Osaka-based firms have transferred their headquarters there."

In response the OSE has launched a series of measures aimed at increasing its appeal. Opening times have been brought forward by 10 minutes for trading on 250 issues and a new second section has been launched with the aim of providing listings for smaller but potentially promising companies in the surrounding Kansai region.

Although well received, however, neither innovation has had much impact. Trading during the extra period has been quiet and a significant expansion in activity on the new second section requires an upturn in the general economic condition of the Kansai region.

In the longer term Osaka hopes to benefit from the development of closer ties with the rapidly growing economies of the western Pacific region. One idea, according to Professor Shoichi Royama of Osaka University, is for the listing of companies from the region on a special section of the OSE. This would provide them with access to Japanese capital while at the same time stimulating trading on the OSE.

Osaka Securities Exchange: new products point the way

Of more immediate promise is the second strand of the OSE's current strategy, namely the development of Osaka as a centre for new financial instruments, particularly in the area of financial futures.

This policy has already met with success. By an ingenious interpretation of the rules governing Japanese futures trading Osaka became the first Japanese market to offer a stock future, the OSF 50. It was followed in September last year by the successful introduction of futures trading on the Nikkei 225 index. The next step, scheduled for June, is options trading on the same index.

The introduction of these new products reflects the awareness on the part of Osaka's financial community that the way to succeed is to complement rather than compete directly with Tokyo. "If we just offer the same products as Tokyo then it is difficult for us to compete," claims Mr Sugio, a general planning manager at the OSE.

In this respect the success of the Nikkei 225 futures trading has been of great importance. It demonstrated to Japan's financial authorities and institutional investors that Osaka was capable of producing and managing new instruments. Equally importantly, it provided exposure to major international financial centres. The Singapore international monetary Exchange already trades futures on the Nikkei 225 index and by the end of the year Nikkei 225 futures will also be traded on the Chicago Mercantile Exchange.

Significantly, however, volume on Topix index futures trading, which was also introduced in September and which takes place on the TSE, now exceeds that of its Osaka rival. Initially, the greater familiarity of the Nikkei 225 index gave it the edge but this margin soon eroded and by January trading on Topix futures was over 25 per cent higher than on Nikkei 225 futures.

This shift in fortunes demonstrates clearly the natural tendency for financial activity to centre on Tokyo. For the OSE it implies the need for a continuing stream of new products to maintain the momentum of development.

The difficult question of determining what these new instruments should be is largely the task of a 19-member committee comprising representatives from the financial community, academics, politicians and members of the OSE. Last year was devoted to receiving suggestions from the exchange's clients and potential clients and policy proposals are expected later this year.

A focus of discussion is likely to be what sort of instruments should be suggested for a new financial futures market which could be opened in Osaka. The city was disappointed by the Ministry of Finance's decision to establish Japan's first market for interest rate and currency futures in Tokyo – to open in June – but believes that if it can offer the right products it will receive official backing for its own new market.

Although no concrete proposals have been made, suggestions are starting to emerge. According to Prof Royama, attractive ideas include currency options and medium-term interest rate futures.

Osaka points to two factors in support of its bid to trade new financial instruments. On the one hand the official policy of deregulating Japan's financial markets provides an environment conducive to launching innovative financial products. In addition, there are reasons why the financial authorities should encourage the development of a second major financial centre.

Chief among these is the government's policy of decentralisation as a means of reducing the strain on Tokyo's resources and of promoting regional development.

Certainly, Osaka needs all the support it can muster. Despite soaring costs Japan's financial institutions seem already to have decided where the action is and have voted with their feet. It will be a difficult task to convince them of alternatives.

John Ridding

Japanese financial institutions in London

Big four still recruiting

FOREIGNERS have finally begun to suspend their disbelief in the Tokyo stock market, and Japanese brokers in London are doing very nicely out of their conversion to the cause.

Last month as Mr Andrew Hugh Smith, chairman of the London Stock Exchange, was lamenting £500m in City losses, the big four Japanese brokers were doing their bit for London profitability by generating millions in the market for Japanese equity warrant bonds – their own peculiar corner of the Euromarket – and by selling Japanese equities to local investors.

At a time when redundant stockbrokers are becoming something of a cliché in the City, all four Japanese houses – Nomura, Daiwa, Nikko and Yamaichi – say they are still recruiting. Nomura alone has 750 staff, and is adding employees across the range of its activities; Yamaichi, with 350, plans to increase that number by nearly 20 per cent over the next two years.

Two months ago the Japanese presence in the London equity markets was augmented by a prestigious new arrival: Industrial Bank of Japan (IBJ), the UK-registered subsidiary of which, IBJ International, became a member of the LSE. Article 65 of Japan's securities law bars Japanese banks from doing securities business in Tokyo. However, the Japanese finance ministry has allowed the banks to engage in such business overseas – much as it has allowed Japanese brokers to act as bankers abroad – and both view London as an important testing ground for a future when both forms of activity are permitted in Japan.

London is seen as an important testing ground

No such change is on the immediate horizon, however: IBJ has been warned that while it may make markets in Japanese equities in London, it must not sell the stocks to Japanese investors. The latter activity, it seems, would represent too great an erosion of the barrier separating banking and securities.

Nomura (above) has 750 staff and is still adding employees

IBJ argued, at the time it gained its Stock Exchange seat, that despite cut-backs among some European and US houses, it still saw potential profit in the London market because of Tokyo's buoyancy. With the Nikkei index tripping lightly from peak to peak, foreigners have emerged as significant net buyers of Japanese equities; not surprisingly, the Japanese houses in London have benefitted from the increased interest.

The impact on the market for dollar-denominated Japanese equity warrant bonds has been striking. It is a huge market, and very profitable even under normal circumstances; but in the first eight weeks of 1989, the volume of new issues was three times as high as in the comparable period of 1988; at $11.77bn (£6.7bn), it represented 40 per cent of the total business done last year.

The market's attractions for Japanese borrowers are not difficult to discover: the added spice of the equity warrants attached to the bond ensures the coupon is kept low; and once the dollar debt has been swapped into a yen obligation, the company ends up having borrowed at rates which look cheap even in the land of the miniscule interest rate.

The big four Japanese houses, which dominate the market, are coy about the immense profitability of the business under these market conditions. But management fees alone on $11.77bn in new issues would have totalled over $260m. And though fees are distributed among syndicate members, some of whom are not Japanese, the Tokyo-based houses must have made many millions on the business so far this year – especially given that the issues go straight to a large premium when secondary trading begins.

Foreigners are significant net buyers of Japanese equities

These revenues will no doubt prove a welcome addition as brokers prepare for the end of the financial year later this month (brought forward from September for the first time). In the year to September 1988, Nomura reported a creditable figure for its UK profits, Y10.9bn (£48.7m), but Daiwa and Nikko scarcely broke even, earning Y500m and Y300m respectively, with Yamaichi reporting a slightly higher Y2.8bn.

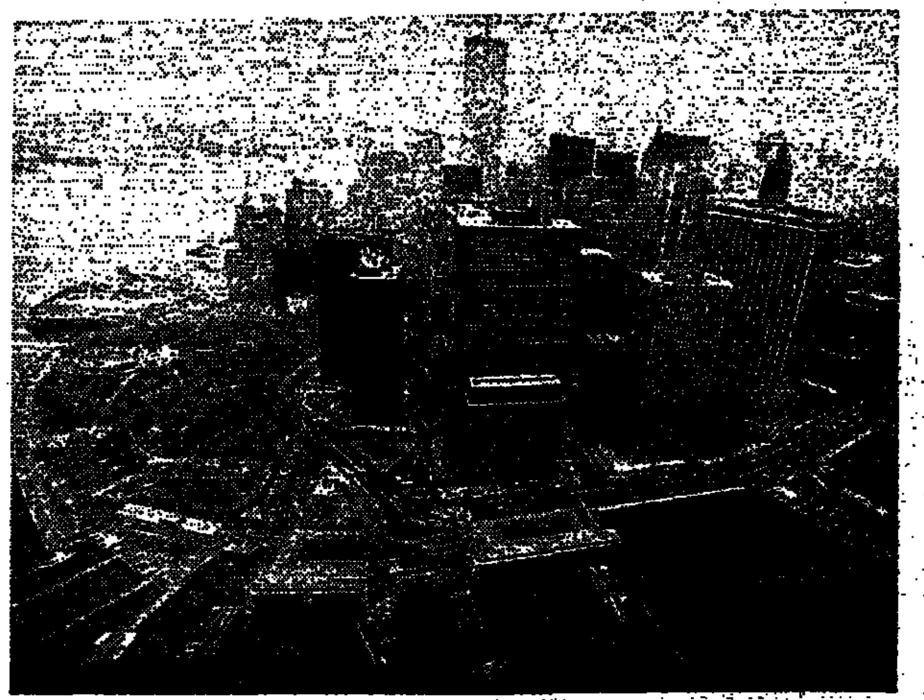
Brokers bridle at the suggestion that they fund their struggle to break into the more traditional London markets with the proceeds of the warrant bond business. But if under 30 per cent of Nomura's revenues come from warrant-related business (Nomura does, after all, have a large business in straight Eurodollar bonds and was second in the new issue league table for those bonds last year) the figure is much higher for Yamaichi and Nikko: around 40 per cent and over 50 per cent respectively. That kind of money must pay the salaries of quite a few UK and European equities analysts – though the very ambitious may shun Japanese employers because of the difficulty of rising to very high levels within the organisation.

Indeed, the buoyancy of the warrant bond market, coupled with the greater propensity of European investors to buy Japanese equities over their American couterparts, go a long way to explaining why all four brokers reported profits in London last year, and small losses in New York. And though there are advocates in the Tokyo finance ministry for bringing that market to Japan – where it is not currently permitted – those engaged in the business in London will probably have more to fear from the performance of the Tokyo market than from the bureaucrats in the near future.

Despite their minimal penetration of the local market so far, Japanese brokers say their commitment to providing a true global service is unshaken by the doubts affecting some other, notably American houses. Nomura says its strategy remains to "dig deep in local soil" and there is little evidence the digging will stop soon.

Japanese banks, too, are seeking greater implantation in the UK. Five have recently gained a Stock Exchange listing, and all are struggling to develop more sophisticated, and profitable, forms of lending. Many, too, are expected to follow the lead of IBJ in the equity market, in preparation for a more integrated future.

Patti Waldmeir



Manhattan would fetch nearly £2 trillion

Karen Zagor looks at Japanese financial institutions in New York

Stakes taken in US houses

THE JAPANESE seem so eager for a strong US foothold that one economist has suggested selling them Manhattan and using the cash to pay off the national debt.

Mr David Hale, chief economist for Kemper Financial Services, argues that New York would be "worth far more to the US economy under Japanese control than under its current management". He adds that at current Tokyo price/earnings multiples, Manhattan would fetch nearly $2 trillion (million million).

Mr Hale's satirical proposal seems less outrageous when one considers the Manhattan properties already in Japanese hands. The Tiffany building on Fifth Avenue, home of the world-reknowned jewellers and setting for the opening of Breakfast at Tiffany's, is now owned by Dai-Ichi Real Estate. The Mobil Building on 42nd Street, the Exxon Building on the Avenue of the Americas and Citicorp Centre on Lexington are all Japanese owned. And the Algonquin Hotel, site of the Round Table in the 1930s where Dorothy Parker and her New Yorker cronies held court, is also Japanese controlled.

The number of Japanese corporate takeovers in the US have also blossomed in recent years. Japanese acquisitions in the US more than doubled in 1988 to $12.7bn from $5.9bn, according to a report by Ulmer Brothers. When purchases of US equity interests in Japan are included, the 1988 total jumps to $13.1bn from $6.3bn in 1987.

The biggest Japanese acquisition of 1988 was Bridgestone's purchase of the Firestone Tire & Rubber company for $2.60bn. Other big US companies now in Japanese hands are Intercontinental hotels, acquired by Seibu/Saison Group for $2.15bn and PACE Industries/Rheem Manufacturing Co which was bought by Paloma Industries for $1.10bn.

Japanese banks, which dominate world rankings on every measure of size, already have a major presence in traditional banking in the US and have started to show their interest in expanding into securities dealing in the US market, despite the difficult experiences of the Big Four brokerage houses.

Dai-Ichi Kangyo, Japan's largest commercial bank, recently announced that it was opening a brokerage subsidiary in New York to deal in and underwrite eligible securities. The bank expressed an interest in expanding gradually into the securities business in the US once the remaining barriers between commercial and investment banking in the 1933 Glass-Steagall Act have fallen.

The banks have started to show their interest in securities

Several Japanese institutions have chosen to buy into the US market by taking stakes in US financial houses. Sumitomo, for example, bought a substantial equity stake in Goldman Sachs. Building a US presence in this way has the advantage of the expertise of already established US teams who can then educate Japanese dealers in US techniques.

One indication that some Japanese institutions may step up their trading activities in the US came when Mitsubishi, the world's biggest trading company, announced in February that it planned to increase its mergers and acquisitions activity in the US.

On the manufacturing front, the Japanese are starting to make their presence felt in the so-called Rust Belt, a sector of the mid-West which suffered with the decline of the US auto industry. Honda is building a vast vehicle assembly plant in Marysville, Ohio. Another six Japanese companies have announced plans to build vehicles in the US.

In the steel industry, a number of joint ventures have given Japanese steelmakers access to the US market in exchange for technology. Inland Steel Industries of Chicago and Nippon Steel of Japan plant to operate an 800,000 tpa coating plant. The engineering studies for the plant were recently approved. LTV of Dallas is considering constructing a second steel-coating plant with Sumitomo Metal Industries of Tokyo.

These joint ventures give Japan access to the world's largest steel market and help by-pass the 1984 statute which limits the amount of steel that 20 foreign nations, including Japan, can import into the US.

A certain amount of antipathy can be detected in American attitudes towards the growing Japanese corporate and financial presence in the US. A survey called Images of Corporate Japan in America, which was conducted in January, found that 64 per cent of American resent Japanese investment in the US. Furthermore, 46 per cent felt that Japanese investments were more harmful than those of other nations' companies.

A certain amount of antipathy can be detected in American attitudes

The purchase of American companies and banks by Japanese was seen as harmful by 76 per cent of Americans, and 69 per cent felt that the Federal government should discourage further Japanese investment in the US.

However, 75 per cent felt that Japanese/American joint ventures were helpful for the US economy. And 64 per cent welcomed Japanese manufacturing plants in the US. More than 70 per cent said that among the benefits of Japanese investment in the US were increased competition, economic growth, and more employment.